

Closed Caption Log, Council Worksession, 4/23/08

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APOLOGIZE FOR BEING LATE, FOLKS. WE SHOULD GET STARTED TO BE RESPECTFUL OF EVERYBODY'S TIME THERE. BEING A QUORUM PRESENT, I WILL CALL TO ORDER THIS WORK SESSION MEETING OF THE AUSTIN COUNCIL. IT IS APPROXIMATELY 12 MINUTES AFTER 9:00 A.M. WE ARE IN THE BOARD AND COMMISSION ROOMS OF THE CITY HALL BUILDING 301 WEST SECOND STREET. HAS THE CITY MANAGER TALKED OVER THE LAST TWO MONTHS ABOUT THIS FORMAT, I THOUGHT I WOULD TURN IT OVER TO HIM TO INTRODUCE OUR OUTLINED SCHEDULE TODAY.

THANK YOU VERY MUCH, MAYOR. AND COUNCIL MEMBERS. LET ME SIMPLY START BY SAYING HOW EXCITED WE ARE TO HAVE THIS OPPORTUNITY TO ENGAGE YOU ABOUT PERHAPS ONE OF, IF NOT THE MOST IMPORTANT, POLICY DISCUSSIONS THAT ANY LEGISLATIVE BODY HAS AND THAT IS THE DEVELOPMENT OF THE FISCAL PLAN FOR THE CITY OF AUSTIN SO WE'RE PLEASED AND EXCITED TO HAVE THIS OPPORTUNITY. AS YOU KNOW, TODAY REPRESENTS THE FIRST OF FIVE BUDGET-RELATED WORK SESSIONS THAT WE'RE GOING TO HAVE WITH YOU. AS I SAID IN MY DISCUSSIONS WITH EACH OF YOU INDIVIDUALLY, OUR INTENT HERE REALLY IS TO OPEN UP, IF YOU WILL, THE BUDGET DEVELOPMENT PROCESS. AND BY THAT, I MEAN REALLY THROUGH THESE WORK SESSIONS TO PROVIDE THE COUNCIL WITH AN OPPORTUNITY TO HAVE INPUT. AND SO OUR INTENT WITH THIS FIRST SESSION IS TO REALLY PROVIDE WITH YOU INFORMATION, FINANCIAL INFORMATION ISSUES, ET CETERA, THAT ESSENTIALLY WE HOPE WILL FRAME, IF YOU WILL, FOR US THE CONTEXT WITHIN WHICH OVER THE NEXT WEEKS AND MONTHS WE WILL INTEND IN PARTNERSHIP WITH YOU, TO DEVELOP THE BUDGET, THE FISCAL PLAN FOR THE CITY FOR THE NEXT FISCAL YEAR. SO WE'RE PLEASED TO BE ABLE TO DO THIS, AND, YOU KNOW, IF WE DO IT RIGHT, YOU KNOW, I DEALLY, WHEN WE GET -- IDEALLY WHEN WE GET TO THE END AND I PRESENT TO YOU A COUPLE MONTHS FROM KNOW, HOPEFULLY THERE WILL BE NO SURPRISES BECAUSE WE WILL HAVE ARRIVED THAT THE PLACE TOGETHER. ONE BENEFIT IS IMPLICIT IN THE FACT THESE MEETINGS ARE TELEVISED TO THE PUBLIC CERTAINLY HAS ACCESS TO OUR DISCUSSION TODAY, OUR PRESENTATION AND THE DISCUSSION WE WILL HAVE WITH YOU AND WE WELCOME THAT AS WELL. AND ADDITIONALLY, WE WELCOME THEIR INPUT BY WAY OF SENDING US THEIR QUESTIONS AND THEIR COMMENTS, EVEN CONCERNS IF THEY HAVE THOSE, WE WANT TO HEAR ALL OF THAT

AND WE WILL CERTAINLY GIVE THAT SERIOUS CONSIDERATION IN THE COURSE OF DEVELOPING THE BUDGET. YOU CAN SEE THE AGENDA HERE. WE HAVE A LOT OF GROUND TO COVER TODAY. AS YOU LOOK AT, IT AND I DON'T GO OVER IT IN DETAIL, THERE ARE A NUMBER OF DIFFERENT BREAKS IN HERE FOR QUESTIONS AND DISCUSSION BY THE COUNCIL. THOSE ARE VERY IMPORTANT. THAT IS CERTAINLY WHERE WE WANT TO GAGE YOUR REACTION TO THE INFORMATION THAT YOU ARE RECEIVING, TRY TO ANSWER ANY QUESTIONS THAT YOU MIGHT HAVE. BEFORE I TURN IT OVER TO STAFF HERE, I WANT TO TAKE THIS OPPORTUNITY UP FRONT TO REALLY ACKNOWLEDGE THE STAFF FOR ALL OF THE TIME AND WORK THAT THEY PUT INTO GETTING US READY FOR THIS FIRST, AGAIN OF FIVE WORK SESSIONS. I CERTAINLY WANT TO ACKNOWLEDGE MY EXECUTIVE STAFF, ALL OF THE ACMs AND THE CHIEF OF STAFF, BUT I WANT TO ESPECIALLY NOTE AND POINT TO LESLIE BROWTHER AND GREG CANALI AND THEIR STAFF. THEY HAVE WORKED HARD OVER THE WORSE OF MANY WEEKS TO GET ALL OF US, INCLUDING YOUR CITY MANAGER, READY FOR THIS FIRST DAY SO I WANT TO SAY TO THEM PUBLICLY HOW MUCH I APPRECIATE ALL OF YOUR EFFORTS AND THE EFFORTS OF YOUR STAFF TO GET US READY FOR THIS DAY. AGAIN, WE'RE EXCITED AND WE'RE READY TO GET ON WITH THE PRESENTATIONS AND THE DISCUSSIONS. I'M GOING TO TURN THE BALANCE OF THE, OF THIS WORK SESSION, OVER TO OUR VERY CAPABLE CHIEF FINANCIAL OFFICER LESLIE BROWTHER. SO A LATERAL PASS TO YOU.

ACTUALLY, BEFORE YOU BEGIN, LESLIE, COUNCIL, A QUICK REMINDER. ONE, WE APPRECIATE THE FLEXIBILITY YOU ALL HAVE SHOWN TO ALLOW US TO SQUEEZE THESE WORK SESSIONS IN WHAT IS ALREADY A BUSY MONTH FOR MOST OF US. THE TARGET HERE IS LIMIT THIS TO ABOUT A THREE-HOUR WORK SESSION SO THE GOAL IS TO HAVE A 9:00 A.M. TO NOON SERIES OF WORK SESSIONS. SO WITH THAT, I THINK LESLIE AND THE MANAGER HAVE CRAFTED, YOU KNOW, A BUSY BUT I THINK A DOABLE WORK OUTLINE FOR THESE THREE HOURS. SO LESLIE, THANK YOU.

THANK YOU. MAYOR AND COUNCIL, FIRST JUST TO LET YOU KNOW, WE'VE PUT TOGETHER A BOOK WITH ALL THE PRESENTATION MATERIALS IN THERE. WE HAVE SOME SLIDES, COPIES OF SLIDES, AND THEN TOWARDS THE BACK OF THE BOOK THERE IS SOME MORE NARRATIVE DISCUSSION THAT GIVES YOU A LITTLE BIT MORE DETAIL. IF YOU COULD MOVE TO THE FIRST FEW SLIDES. MARK OUTLINED SOME OF THE CHANGES THAT ARE IN PLAY FOR THE 2009 BUDGET PROCESS THIS YEAR. BEFORE WE START THE FINANCIAL PIECE OF THE PRESENTATION, WE WOULD REALLY LIKE TO OUTLINE WHAT IS NEW IN OUR APPROACH TO THE PROCESS. AS MARK MENTIONED, THE WORK SESSION FORMAT, HOPEFULLY TO FACILITATE MORE INTERSECTION IN THE BUDGET FROM SAYS -- INTERACTION IN THE BUDGET PROCESS. IT IS IN THE SECOND SECTION OF THE BOOK. OUR GOAL WAS TO PROVIDE MORE OPPORTUNITIES REALLY TO RECEIVE COUNCIL INPUT AND FEEDBACK THROUGHOUT THE PROCESS. AND THIS CONTRASTS REALLY A BIT WITH OUR PREVIOUS APPROACH WHERE WE REALLY JUST HAD TWO WORK SESSIONS PREVIOUSLY. WE DID A FIVE-YEAR FORECAST AS A BRIEFING AT A COUNCIL MEETING, AND THEN WE CAME BACK TO YOU IN JUNE FOR KIND OF A FINAL WRAP UP AND INPUT BEFORE WE WENT OFF AND

PREPARED THE BUDGET IN LATE JULY. MOVING ON TO COVER OUR PROPOSED BUDGET CALENDAR, OUR PLAN AT THE WORK SESSION TODAY IS TO FOCUS ON THE GENERAL FUND. WE WILL INCLUDE AN ECONOMIC OUTLOOK TO BE PRODUCED WITH JOHN ON MY LEFT HIS FIRM "TEXAS PERSPECTIVES". JOHN WILL COVER THE NATIONAL LEVEL AS WELL AS THE LOCAL LEVEL AND HAS INCLUDED THIS YEAR A DISCUSSION OF THE KEY INDICATORS PERTINENT TO THE CITY GOVERNMENT'S FINANCIAL PICTURE AND WILL ALSO BE TAKING A LITTLE MORE IN DEPTH LOOK AT SALES TAX THIS YEAR IN JOHN'S PRESENTATION. THEN WE WILL MOVE ON TO OUR FIVE-YEAR FORECAST SECTION OF THE PRESENTATION. WE WILL FOCUS ON THE GENERAL FUND TODAY AND GREG WILL WALK US THROUGH A DETAILED OUTLINE OF THE ASSUMPTIONS AND REALLY JUST PRIMARILY THE ASSUMPTIONS THAT WERE USED TO DEVELOP THE REVENUE PROJECTIONS AND THE EXPENDITURE PROJECTIONS. THEN, LOOKING AT MAY 7, WE'LL MOVE INTO A SECOND WORK SESSION. THIS IS A LITTLE BIT DIFFERENT FROM WHAT WE'VE DONE IN THE PAST. WE'LL BE LOOKING AT OUR MAJOR ENTERPRISE FUNDS THAT WILL INCLUDE AUSTIN ENERGY, AUSTIN WATER UTILITY, THE DRAINAGE UTILITY, THE AIRPORT, THE CONVENTION CENTER, SOLID WASTE SERVICES AND THE TRANSPORTATION FUND. WHAT THE DEPARTMENT HEADS OF THOSE BUSINESSES WILL BE SHARING WITH YOU AT THAT MEETING IS ALSO AN ECONOMIC OUTLOOK FOR THEIR RESPECTIVE INDUSTRY, A FIVE-YEAR FINANCIAL FORECAST, THE MAJOR CAPITAL PROJECTS THAT THEY SEE THAT ARE NEEDED AND/OR PLANNED IN THE FUTURE. THEIR RATES AND CHARGES OUTLOOK, AND WHAT THEY PLAN TO FOCUS ON IN 2009. THEN, MOVING TO MAY 14, AND THE 17, WE HAVE TWO ADDITIONAL BUDGET WORK SESSIONS SCHEDULED FOR YOU THAT WOULD ALLOW COUNCIL A MORE IN DEPTH LOOK AT OUR GENERAL FUND DEPARTMENTS. THIS IS BRAND NEW AND IT WOULD ALLOW OUR DEPARTMENT HEADS TO SHARE WITH YOU INFORMATION ABOUT THEIR CORE PROGRAMS AND THEIR SERVICES. THE TYPES OF REVENUES THAT THEY GENERATE. THEIR KEY ISSUES AND PRIORITIES AS THEY LOOK AHEAD TO 2009, AND STRATEGIES THAT THEY ARE CONSIDERING TO BE ABLE TO WORK WITHIN THE RESOURCES THAT THEY EXPECT TO HAVE NEXT YEAR. THEN IN JUNE, WELL, EXCUSE ME, BACK TO THE 14th, THAT WOULD FOCUS ON OUR PUBLIC SAFETY DEPARTMENTS, THEN MAY 21 WOULD FOCUS ON OUR NONPUBLIC SAFETY DEPARTMENTS. AND THEN FINALLY, IN JUNE WE WOULD COME BACK TO YOU FOR WRAP UP, BASICALLY SOME FINAL INPUT. AND THEN WE WOULD GO OFF AND PREPARE THE PROPOSED BUDGET AND DELIVER THAT TO YOU ON JULY 24. OF COURSE AUGUST PUBLIC HEARING, BUDGET APPROVAL READINGS, SEPTEMBER 10 THROUGH THE 12th. SO TODAY'S PRESENTATION, OUR FINANCIAL FORECAST REALLY REPRESENTS THE BEGINNING OF THE BUDGET PROCESS, AND A MAJOR PIECE OF THAT FORECAST IS CONSIDERING THE SHORT-TERM ECONOMIC PICTURE. WHAT IT LOOKS LIKE CURRENTLY AND WHAT IT IS EXPECTED TO LOOK LIKE IN THE FUTURE. NATIONAL, STATE, REGIONAL AND LOCAL LEVEL IN TERMS OF THE ECONOMY WILL BE LOOKED AT TODAY, AND AGAIN, JOHN IS HERE TO REALLY TAKE US THROUGH A BROAD OVERVIEW OF WHAT IS GOING ON IN THE LOCAL AREA WILL COME INTO PLAY. AS I MENTIONED PREVIOUSLY, SALES TAX HAS BEEN IN THE MEDIA AND NEWS LATELY SO WE ASKED JON TO SPEND SOME TIME TODAY ON THE FACTS THAT AFFECT SALES TAX LOCALLY AND WHAT IS GOING ON WITH THE OTHER MAJOR TEXAS CITIES. SO WITH THAT, I

WILL TURN IT OVER TO JON.

MR. MAYOR, COUNCIL, GOOD MORNING. THANKS FOR HAVING ME TODAY S. THIS A TOPIC YOU GUYS ARE CONCERNED WITH AT THIS POINT? [LAUGHTER] SOMETIMES WHEN I COME AND TALK AND EVERYTHING IS ROSIE, IT IS LIKE YEAH, GREAT, THANKS, JON. IT SEEMS TO ME BASED ON THE PHONE CALLS I'M GETTING THAT PEOPLE ARE MORE FOCUSED ON THE ISSUE. I THINK THAT IS GOOD. TIMES ARE GOOD FOR AN ECONOMIST, TIMES ARE NOT SO GOOD FOR ANYONE ELSE.

JON IS AN ECONOMIST BECAUSE HE DOESN'T HAVE A GOOD ENOUGH SENSE OF HUMOR TO BE AN AN ACCOUNTANT [LAUGHTER]

CAN I GET A CLIP OF THAT FOR MY WEB SITE. STRUCTURE OF THE PRESENTATION TODAY, I THINK IT IS IMPORTANT GIVEN EVERYTHING GOING ON OUT THERE IN THE WORLD AND PARTICULARLY EVERYTHING WE ARE READING IN THE MEDIA CHANNELS TO TAKE A LOOK AT WHAT IS HAPPENING OUTSIDE OF OUR COMMUNITY. THERE IS A TEMPTATION CERTAINLY WHEN YOU ARE DEALING WITH THE BIG ISSUES FACING AUSTIN TO GET A LITTLE BIT FOCUSED HERE BUT WE ARE PARSE PART OF A MUCH BIGGER WHOLE SO I WANT TO TALK ABOUT THE ECONOMY AND HOW TO AFFECTS US HERE AND I WILL TALK ABOUT WHAT IS HAPPENING HERE IN THE LOCAL ECONOMY IN TERMS OF RECENT TRENDS WHEN WE THINK IT IS GOING IN THE SHORT RUN AND REVIEW THINGS I THINK ARE IMPORTANT FOR THE MEDIUM AND LONGER TERM. ALL OF THAT, OF COURSE, CERTAINLY THERE IS A LOT OF FOCUS ON SALES TAX REVENUE, CONSUMER SPENDING, IT IS A SIGNIFICANT SOURCE OF REVENUE FOR THE CITY OF AUSTIN AND WE WILL GO THROUGH THAT A LITTLE BIT. I CAN GO THROUGH THE WHOLE THING AND TAKE QUESTIONS AFTER THE FACT BUT I THINK IF WILL MAKE SENSE TO RUN THROUGH THE NATIONAL STUFF, STOP AND SEE IF ANYONE HAS ANY QUESTIONS AT THAT POINT, THEN GO THROUGH THE LOCAL ECONOMY AND TAKE QUESTIONS AFTER. THAT SO STARTING WITH THE BIG PICTURE, SHOW OF HANDS, DOES ANYBODY HERE THINK WE ARE NOT IN A RECESSION? I HAVEN'T HAD ANYBODY WILLING TO RAISE THEIR HAND AND SAY EVERYTHING IS GREAT. CLEARLY THE DATA TELLS US THAT THE NATIONAL ECONOMY IS EXPANDING BUT THE DATA IS A LITTLE BIT OUT OF DATE AND THERE IS NO QUESTION OUT THERE IN THE REAL WORLD WE ARE IN A NATIONAL RECESSION. AND IT IS NOT LIKELY TO IMPROVE SIGNIFICANTLY ANY TIME IN THE NEAR FUTURE. THERE IS SOME MODEST UPSIDE OUT THERE. SOME MODEST UPSIDES HAVE TO DO WITH MANY, MANY COMPANIES IN THE UNITED STATES, MANY COMPANIES HERE IN AUSTIN, ARE DOING A MUCH BETTER JOB OF MAPPING THEIR PRODUCTION, IF YOU WILL, THEIR EFFORTS TO DEMAND FOR THEIR PRODUCTS AND SERVICES, AND AS A RESULT BUSINESS INVESTMENT REMAINS REASONABLY GOOD. PROFITS REMAIN, AT THIS POINT IN THE BUSINESS CYCLE, REASONABLY STRONG, AND FRANKLY, GIVEN SOME OF THE SHARP RISES IN FOOD AND ENERGY COSTS, THE INFLATION DATA IS BETTER THAN YOU OTHERWISE MIGHT THINK IT WOULD BE. JOB GROWTH COULD BE A LOT WORSE. FRANKLY IT COULD BE VERY NEGATIVE AT THIS POINT ON A NATIONAL SCALE AND NORMALLY AT THIS POINT IN A BUSINESS CYCLE IS THE FACT THAT WE'RE STILL VERY MODESTLY ADDING JOBS

ON A NATIONAL LEVEL IS A GOOD SIGN. WHAT IS THE DOWNSIDE? FINANCE, FUNDAMENTALLY. HOUSING CRISIS CREATES A FINANCIAL CRISIS. CLEARLY RISING PRICES ARE PART OF THE EQUATION. THE BIGGEST DOWN SIDE OF THE FINANCIAL CRISIS IS THE UNCERTAINTY IT CREATED AND HESITANCY IT CREATED, PARTICULARLY IN TERMS OF PROVIDING CREDIT TO PEOPLE. CREDIT IS IN FACT, THE FUEL THAT RUNS THE ENGINE OF THE ECONOMY AND RIGHT NOW THE TANK IS PRETTY DRY. AND THAT IS A PROBLEM. WHAT ARE OUR EXPECTATIONS FOR THE COMING YEAR FOR THE NATIONAL ECONOMY? THE FED IS GOING TO CUT INTEREST RATES AT LEAST ONE MORE TIME, THEY'VE CERTAINLY BEEN GIVING SIGNALS THEY WILL DO THAT IN THE LAST FEW DAYS. I THINK IT WILL HAVE RELATIVELY LITTLE IMPACT IN THE SHORT RETURN BECAUSE PER WHAT I MENTIONED A SHORT TIME AGO, IF BANKERS AND OTHERS ARE NERVOUS ABOUT LENDING, IT DOESN'T MATTER WHAT THE PRICE IS THEY ARE NOT GOING TO MAKE IT AVAILABLE. THE FED, AND I CERTAINLY DON'T HAVE ANY PARTICULAR INSIGHT INTO WHAT THEY ARE DOING, I SUSPECT THEY ARE FRUSTRATED BECAUSE THE EASING OF MONETARY POLICY, CUTTING OF INTEREST RATES, DOESN'T HAVE THE IMPACT DESIRED. ONE THING THAT IS HAPPEN ACROSS THE COUNTRY IS PRICES ARE READJUSTING TO AFFECT UNDERLYING REALITY AND WE WILL SEE MORE AND MORE OF THAT. I WILL SHOW YOU A CHART IN A LITTLE WHILE SHOWING YOU DIFFERENCES IN TRENDS TRENDS TRENDS IN HOUSING PRICES ACROSS THE COUNTRY. ONE THING WITH THESE CRY CRISIS, PEOPLE THAT HAVE MONEY THAT SHOW UP WANT TO SHOW UP AND BUY HOUSES FOR PENNYS ON A DOLLAR AND WE ARE SEEING THAT A LOT ACROSS THE UNITED STATES. NOW THERE ARE BIG EXPOS IN LAS VEGAS WHERE FOREIGN MONEY IS SHOWING UP TRYING TO BUY SUBDIVISIONS FOR 20-CENTS ON THE DOLLAR AND YOU WILL SEE MORE OF THAT. WHEN PRICES SHAKE OUT A LITTLE BIT, YOU WILL SEE MARKETS OPEN BACK UP BUT IT WILL BE PROBABLY LATER ON THIS YEAR. WE THINK ACROSS THE COUNTRY, CONSUMERS WILL GET A LITTLE BIT WEAKER OVER THE COURSE OF THE YEAR. THERE IS CLEARLY GOING TO BE A RISE IN FORECLOSURES AND BANKRUPTCIES AND I THINK CONSUMER SPENDING IS GOING TO BE PRETTY FLAT FOR MOST OF 2008. THE INFLATION NUMBERS WILL GET WORSE BEFORE THEY GET BETTER AND THAT IS FUNDAMENTALLY RELATED TO THE PRICE OF OIL, ENERGY COSTS AND THE RIPPLE AFFECTS OF THAT, NOT THE LEAST MUCH WHICH IS THE AFFECT -- NOT THE LEAST OF WHICH IS THE AFFECT ON FOOD PRICES. THE INCREDIBLY LOW PRICE OF THE DOLLAR MAKES US VERY COMPETITIVE IN TERMS OF SELLING EXPORTS. WHEN YOU TALK TO AN ECONOMIST, THERE IS ALWAYS GOOD NEWS AND BAD NEWS AND THAT IS A MODEST SILVER LINES THAT HELPS US GO FORWARD. MY FORECAST FOR GDP THIS YEAR, UP A 1/2 POINT. PICKING UP TOWARDS THE END OF THE YEAR. NEXT YEAR A LITTLE BIT BETTER. AFTER THAT, WE WILL MOVE BACK TO THE 2 1/2 TO 3% RANGE OVER THE NEXT FOUR OR FIVE YEARS. I DO THINK THAT IS THE MORE OR LESS SPEED LIMIT WE ARE PROBABLY AT, ABSENT SOME OTHER FORM OF BUBBLE. WE HAD A BUBBLE WITH THE STOCK MARKET, NOW WE'VE HAD A HOUSING BUBBLE. I CAN'T IMAGINE WHAT THE NEXT BUBBLE MIGHT BE IF WE DON'T HAVE ANOTHER BUBBLE OF SOME KIND WE WILL MOVE BACK TO 2 1/2 TO 3% GROWTH. THIS IS GDP, IT IS INTERESTING, I THINK YOU GUYS HAVE HEARD MY SONG AND DANCE ABOUT THREE IS A MAGIC NUMBER. IT WAS PRETTY MAGICAL

FOR A FEW YEARS THERE IN THE MIDPART OF THIS DECADE AND YOU CAN SEE OBVIOUSLY FOURTH QUARTER GDP, WHICH IS THE MOST RECENT NUMBER WE HAVE, IS JUST AT MARGINAL GROWTH. FIRST QUARTER WILL BE NEGATIVE WHEN IT COMES OUT. THAT IS THE OVERALL NATIONAL ECONOMY. HERE IS INFLATION. RELATIVELY MODEST FOR A NUMBER OF YEARS. BACK IN THE THREEISH RANGE, WHICH IS PET PRETTY GOOD. HALF OF THAT 4% FIGURE IS FOOD AND ENERGY. SO FROM SOME LEVEL FROM A POLICY PERSPECTIVE THAT IS GOOD NEWS BECAUSE WHEN GUYS ARE THINKING THINKING ABOUT WHETHER OR NOT TO RELAX INTEREST RATES THEY FOCUS ON STUFF ASIDE FROM FOOD AND ENERGY. RETAIL SALES, WE HAD DATA ON THE NATIONAL LEVEL AND YOU CAN SEE CONSUMERS ARE PULLING BACK PRETTY SHARPLY ON THIS. THEN THERE IS THE EMPLOYMENT FIGURE, THE MOST RECENT DATA THAT WAS OUT. I THINK MARCH DATA MAY COME OUT TODAY BUT THROUGH FEBRUARY OF '08, AGAIN, JUST VERY, VERY MARGINAL GROWTH ON A NATIONAL BASIS. MENTIONED THE DOLLAR. I BELIEVE THAT IS THE WEAKEST LEVEL OF THE DOLLAR IN APPROXIMATELY 20 YEARS, SO IF ANYBODY IS GOING TO EUROPE THIS SUMMER, WELCOME TO THE LAND OF THE \$25 CHEESEBURGER. AND HERE IS THE STUFF I THINK IS KIND OF COMPELLING. IT IS A LITTLE BIT DATED BUT FAIRLY INTERESTING. NONRESIDENTIAL INVESTMENT, PUTTING MONEY INTO EVERYTHING NATIONWIDE EXCEPT RESIDENTIAL HOUSE ISING, YOU CAN SEE RELATIVELY POSITIVE. EVEN IN THE END OF THE FOURTH QUARTER '07, MANY PROBLEMS IN THE NATIONAL ECONOMY ARE MAKING THEMSELVES MANIFEST, EVEN IF THEY DIDN'T HIT THE POPULAR MEDIA, IT IS APPARENT. GROWING AT 7%, BY CONTRAST RESIDENTIAL -- WHOA, TOO FAR. RESIDENTIAL INVESTMENT, FOURTH QUARTER OF '07, DOWN 25%. SO THE HOUSING CRISIS, IF YOU LOOK AT THIS CHART, IS NOT NECESSARILY A MYSTERY. WHEN YOU SEE THIS. AND IN FACT, THERE IS A BIT OF A SILVER LINING. IF YOU HAVE TOO MUCH OF SOMETHING YOU OUGHT TO STOP MAKING IT AND WHAT YOU ARE SEEING NATIONALLY IS WE'RE NOT PRODUCING MUCH NEW HOUSING BECAUSE WE HAVE TOO MUCH. THAT IS GOOD. THAT IS HOW THE MARKET HAS TO WORK ITS WAY OUT IF WE CONSTRAIN SUPPLY, IF DEMAND ULTIMATELY PICKS UP, PRICES ULTIMATELY WILL COME BACK UP AND WE WILL GET THE MARKET A LITTLE BIT BACK IN BALANCE. SO THAT IS A PAINFUL CHART TO LOOK AT BUT IT INDICATES THE PROCESS IS WORKING THE WAY IT SHOULD. THIS IS NOT THE GREATEST CHART IN THE WORLD. I SHAMELESSLY STOLE THIS, BUT IT IS INDICATIVE, IT IS A CHANGE IN HOUSING PRICES FROM THE FOURTH QUARTER OF '6 TO THE FOURTH QUARTER OF '07, AND RED IS BAD, GREEN IS GOOD IS THE BOTTOM LINE HERE, AND YOU CAN SEE THAT EVEN BY THE END OF LAST YEAR HOUSING PRICES WERE FALLING RAPIDLY, CERTAINLY IN THE CALIFORNIA MARKETS AND PARTS OF FLORIDA, PARTS OF ARIZONA AND THE AREA AROUND WASHINGTON, D.C., AND YOU CAN SEE WE ARE SOMEWHERE IN THE MIDDLE THERE WHICH IS A TREND THAT HAS MORE OR LESS CONTINUED. THE POINT OF THIS BEING, FROM A MARKET STANDPOINT, THERE IS NOT A HOUSING MARKET, THERE ARE HOUSING MARKETS, PLURAL. THERE IS NOT A SINGULAR HOUSING MARKET, THERE ARE HOUSING MARKETS, PLURAL. BEAR THAT IN MIND AS YOU READ NATIONAL STORIES.

IS THAT A MISPRINT THAT BELMONT HAS THE HOTTEST HOUSING MARKET.

IT IS ALL RATES OF CHANGE SO IT COULD BE \$28 A FOOT AND NOW IT IS 42. COULD BE [LAUGHTER] SO ANYWAY, THIS IS THE ONE, THIS IS PART OF THE PROBLEM WHY THE FINANCIAL MARKETS ARE SO NERVOUS. THIS IS THE DELINQUENCY RATE ON ALL LOANS ACROSS THE COUNTRY AND I DON'T HAVE MORE RECENT DATA ON THIS BUT BANKERS GET NERVOUS WHEN THIS NUMBER GETS ABOVE 2%. AND AT 3% AND CHANGE, BY FOURTH QUARTER OF '07, THIS IS THE CAUSE FOR A LOT OF CONCERNS. AND UNTIL THE TREND IN THIS NUMBER SHOWS SIGNS OF PEAKING AND TURNING BACK DOWN, I THINK YOU ARE GOING TO SEE THE FINANCIAL SECTOR OVERALL BE VERY, VERY CAUTIOUS. SO I THINK THAT IS MY LAST SLIDE ON THE NATIONAL ECONOMY. YUP. QUESTIONS FOR JOHN?

COUNCIL MEMBER, COLE.

YOU DIDN'T SAY MUCH ABOUT THE STOCK MARKET, AND I WAS KIND OF CURIOUS ABOUT THAT AND WHAT YOU SEE THAT DOING AND HOW THAT IMPACTS THE NATIONAL ECONOMY.

ACTUALLY THE STOCK MARKET IS AS CONFUSED AS THE REST OF US ARE, TO SOME DEGREE. I THINK THE MARKET HAS GONE -- ONE THING I'VE SEEN HAPPEN IN THE LAST SEVERAL YEARS IS IT MOVES UP AND DOWN, IT IS PRETTY VOLATILE, YET THE UNDERLYING TREND LINE IS PRETTY FLAT. IF YOU ASK ME WHAT I THINK IS GOING TO HAPPEN, I THINK IT WILL BE RELATIVELY FLAT MOST OF THIS YEAR. NOW IT HAS MUCH LESS OF AN IMPACT ON THE FUNCTIONING OF THE ECONOMY THAN IT DID A FEW YEARS AGO IN PART BECAUSE OF REAL LIVE NORMAL PEOPLE AREN'T FOLLOWING IT AS OBSESSIVELY AS THEY USED TO FIVE, SIX, SEVEN YEARS AGO. I CERTAINLY HAD A PERIOD I CHECKED MY PORTFOLIO ALL THE TIME AND I DON'T DO THAT ANY MORE. IT DOESN'T HAVE MUCH OF AN IMPACT ON MY DAY-TO-DAY SPENDING DECISIONS AND THAT IS PROBABLY CONSISTENT WITH WHAT MOST FOLKS ARE DOING.

YOU EXPLAINED THAT IT DOESN'T MATTER THAT THE FEDS ARE CUTTING INTEREST RATES BECAUSE THE FINANCIAL INSTITUTIONS AREN'T LOANING THE MONEY.

YES.

BUT DOES THAT SAME LOGIC HOLD TRUE FOR REFINANCING HOMES? BECAUSE I WOULD THINK THAT MIGHT BE AN UPTICK TO START.

AGAIN, THE ISSUE IS WHEN YOU GO TO REFINANCE YOUR HOME, WHAT IS IT GOING TO BE VALUED AT AND ARE YOU CONSIDERED CREDIT WORTHY ENOUGH TO GO REFINANCE IT. IN THE OLD DAYS IF YOU WALKED IN, WELL, IN THE OLD DAYS IF YOU WALKED IN YOU HAD TO HAVE PRETTY GOOD CREDIT TO DO THAT AND THEN THERE WAS A PERIOD ALL YOU HAD TO DO WAS WALK THROUGH THE DOOR AND NOW WE ARE BACK TO THE VERY OLD DAYS WHERE YOU HAVE TO HAVE STELLAR CREDIT AND YOU HAVE TO HAVE A TREMENDOUS AMOUNT OF EQUITY IN THE HOME TO BE ABLE TO REFINANCE IT. SO ALL OF THOSE CONDITIONS, LENDING STANDARDS HAVE ESSENTIALLY BEEN SIGNIFICANTLY ELEVATED IN

THE LAST SIX TO EIGHT MONTHS, SO EVEN IF YOU CAN GET AN ATTRACTIVE INTEREST RATE, IF YOU DON'T QUALIFY FOR THE LOAN BECAUSE YOU WANT TO REFINANCE YOUR HOUSE AND IT IS WORTH \$50,000 LESS THAN IT USED TO BE, IT DOESN'T MATTER WHAT THE INTEREST RATE IS.

FURTHER QUESTIONS FOR JON ON THE NATIONAL ECONOMY. THANK YOU, JOHN.

CARRY FORWARD. SO THE STUFF WE REALLY CARE ABOUT, WHAT IS GOING ON IN RIVER CITY. I'M CONTINUALLY IMPRESSED BY THE ABILITY OF THE AUSTIN ECONOMY TO GROW JOBS MORE RAPIDLY THAN I THINK IS POSSIBLE, AND I THINK THIS PAST YEAR I SAID WE WOULD HAVE ANOTHER GOOD YEAR, I DIDN'T THINK 2007 WOULD BE AS GOOD AS THE INITIAL DATA REPORTED. 4.7% JOB GROWTH IS TERRIFICALLY RAPID AND I WILL SHOW YOU SOME REASON WHY IS THAT IS HAPPENING, PART IS THE EXTRAORDINARY IN MIGRATION TO THE AUSTIN METRO AREA. THAT, I BELIEVE, CAN'T BE SUSTAINED AND WE'VE ALREADY BEGUN TO SEE THAT RATE OF GROWTH GOIN GO DOWN A LITTLE BIT. I HAVE BEEN SURPRISED LAST ON PART OF THAT HOW WELL LOCAL SPENDING HELD UP THROUGH 2007 AND IN '08. CLEARLY THAT IS SOFTENING UP SOME AND WE WILL GET INTO THAT WITH SALES TAX COMPENSATION. TOURISM IS STRONG IN OUR LOCAL ECONOMY AND WILL BE STRONG GOING FORWARD, BUT LIKE EVERYBODY ELSE IN THE WORLD, OUR LOCAL HOMEBUILDERS EARN SLOWING WAY DOWN. SOME OF THAT IS BECAUSE DEMANDS FOR HOUSES IN AUSTIN HAS SLACKED OFF A LITTLE BIT. THERE ARE NOT AS MANY CALIFORNIA DOCTORS RUNNING AROUND TRYING TO BUY RENT HOMES AND SUBDIVISIONS AND SOME OF THAT IS BECAUSE WE'VE HADNANT BUILDERS IN AUSTIN THAT PULLED OUT OF THE MARKET. THEY PULLED OUT OF THE MARKET IN SOME CASES BECAUSE IT WAS A DECISION MADE IN CORPORATE HEADQUARTERS WE WOULD STOP BUILDING ACROSS THE COUNTRY AND THAT HAD AN IMPACT HERE EVEN IF THE AUSTIN MARKET JUSTIFIED A LITTLE MORE BUILDING, BUT CLEARLY OUR LOCAL HOME BUILDERS WERE SLOWING DOWN. PROBABLY NOT AT THE SAME PACE AS OTHER MARKETS, BUT DEFINITELY SLOWING DOWN. ALL THE DEVELOPMENT INDICATORS ARE DOWN RIGHT NOW WITH THE EXCEPTION OF AVERAGE AND MEDIAN PRICES. THAT IN SOME WAYS CONCEALED MORE THAN IT REVEALS BECAUSE IF YOU HAVE A HIGH END HOME, A HOME ON THE MARKETPLACE AT THE HIGH END OF THE PRICE RANGE, YOU WILL HAVE A HARD TIME MOVING IT BECAUSE MORTGAGES ARE HARD TO COME BUY. CONVERSELY, IF HAVE YOU A HOME IN THE RIGHT NEIGHBORHOOD IN A RELATIVELY ATTRACTIVE PRICE POINT, YOU CAN PROBABLY SELL IT QUICKLY. THERE ARE EVEN WITHIN OUR COMMUNITY AND WITHIN OUR REGIONS DIFFERENT MARKET CONDITIONS BUT OVERALL DEVELOPMENT INDICATORS ARE CLEARLY DOWN. AS WE TALKED ABOUT NATIONALLY, LOCAL LENDERS ARE NERVOUS AND ONE OF THE REASONS THEY ARE NERVOUS IS THEY DON'T REALLY KNOW THE FULL RANGE OF THE IMPLICATIONS OF THE NATIONAL FINANCIAL CRISIS. WHEN YOU ARE NERVOUS, YOU GET CAUTIOUS. WHEN YOU GET CAUTIOUS, YOU DON'T DO THINGS. FOR EXAMPLE, IF YOU WANT TO BORROW MONEY LOCALLY, YOU BETTER HAVE GREAT CREDIT AND IF YOU WANT TO BUY A HOUSE, YOU BETTER BE PREPARED TO PUT 20% DOWN. THOSE ARE THE OLD DAYS AND WE ARE BACK TO THAT ERA AS WELL. AND WE HAVE AN EXTRAORDINARY IN MIGRATION INTO THE METRO

AREA. I'M STUNNED HOW MANY PEOPLE HAVE MOVED INTO THE AUSTIN METRO REGION IN THE LAST SEVERAL YEARS. I HAVE CONSENSUS DATA THAT SHOWS THAT AND I WILL SHOW YOU THAT. THAT IS FUELING WHAT HAS KEPT THE OVERALL LOCAL ECONOMY IN GOOD SHAPE. IF ASK YOU ME TO ROLL IT UP, FUNDAMENTALS HERE REMAIN SOLID, HAVE BEEN SOLID FOR A LONG TIME, BUT CLEARLY THE ICING IS OFF THE CAKE IN 2008. PICTURES TO ILLUSTRATE THAT, CHANGES IN OUR TOTAL METRO AREA ECONOMY THIS IS CALLED NON-AG EMPLOYMENT, THEY CALL FOLKS IN DIFFERENT SECTORS AND SAY HOW MANY FOLKS DO HAVE YOU WORKING. THE LAST DATA POINTS THERE DOWN TO 3.2 IN FEBRUARY OF '08. WE EXPECT THIS NUMBER TO CONTINUE TO GO LOWER. I WILL GIVE YOU THE FORECAST ON THAT IN A SECOND. SINGLE FAMILY BUILDING PERMITS ACTUALLY IN THE CITY OF AUSTIN, IT IS KIND OF A VOLATILE SERIES SO I RAN A TREND LINE THROUGH THIS THAT NUMBER SHOULD ALSO CONTINUE TO DECLINE. I DON'T KNOW EXACTLY HOW FAR DOWN IT IS GOING TO GO BUT YOU CAN SEE IT IS BACK TO LEVELS CONSISTENT WITH THE LATE 90s OPPOSED TO THE RUN-UP HERE IN THE LAST COUPLE YEARS. AND THIS IS ONE I PAY A LOT OF ATTENTION TO, DATA BY THE TEXAS A&M REAL ESTATE CENTER AND IT IS A BALANCE MEASURE OF THE LOCAL REAL ESTATE MARKET. IT IS THE MONTHS OF AVAILABLE HOUSING INVENTORY. IF YOU TALK TO THE GUYS AT A&M, THEY WILL TELL YOU SIX MONTHS IS A BENCHMARK, SIX MONTHS OF AVAILABLE INVENTORY. IF YOU GET MORE THAN SIX MONTHS YOU ARE IN A MARKET THAT IS OUT OF BALANCE AND IN THE THREE-MONTH RANGE YOU NEED TO BE BUILDING HOUSES. WE ARE TRENDING UP AT THIS POINT AND RELOGICALLY WILL TREND UP A LITTLE BIT MORE BUT WE WERE NOT OUT OF BALANCE AS OF FEBRUARY OF '08 AND THAT IS A GOOD SIGN. IT IS PARTICULARLY A GOOD SANE SIGN WHEN LOOKING AT OTHER DEVELOPMENT INDICATORS, THERE MAY NOT BE TOO MUCH DEMANDS, NOT ADDING TOO MUCH SUPPLY, WE MAY BE ABLE TO KEEP THIS RATIO IN A GOOD BALANCE. SO THAT IS GOOD NEWS ABOUT THE LOCAL HOUSING MARKET. AND TOURISM, WE KEEP TRACK OF TOURIST REVENUE BECAUSE IT IS CLEARLY AN AREA OF OUR ECONOMY THAT IS EXPANDING IN THE LAST SEVERAL YEARS. THIS IS TOTAL HOTEL REVENUE AT THE END OF '07. THE FIRST QUARTER OF '08 WAS GOOD AS WELL. YOU CAN SEE A SHARP RISE IN THE LAST FEW YEARS AND WE'VE BEEN ABLE TO DO THIS WHILE SLIGHTLY INCREASING THE OCCUPANCY RATE. WE'VE HAD NEW HOTEL PRODUCT COME ON-LINE AND WE HAVE MORE COMING ON-LINE THIS YEAR AND PROBABLY ON INTO NEXT YEAR AS WELL AND WE ARE RUNNING AT OCCUPANCY RATES AT 70%. WHICH IS STRONG. STRONGER THAN ANY TIME SINCE 2000. THIS IS A BRIGHT SPOT. WE MAY ALL GET TIRED OF LOTS OF FOLKS RUNNING AROUND TIME THAT DON'T LIVE HERE, BUT THEY DO BRING IN MONEY AND THE TOURIST INDUSTRY IS A PRETTY TAX-INTENSIVE INDUSTRY.

MOST OF THEM DON'T BRING THEIR CARS.

WHICH IS ALSO A GOOD THING TOO, FOR SURE. SO WHAT IS OUR FORECAST, YOU KNOW, YOU CAN SEE SOME OF THE DIFFERENT THINGS WE'VE BEEN TALKING ABOUT. I THINK THE HOUSING MARKET IS GOING TO SOFTEN UP A LITTLE BIT. I DO NOT THINK IT IS GOING TO CRASH. I THINK WE STAY IN RELATIVE BALANCE. I'M SAYING JOB GROWTH WILL BE UP 1.7%, THIS IS AGAIN, ACROSS THE METRO AREA ABOUT 13,000 JOBS. A LITTLE OVER 2% NEXT

YEAR. WE ARE PROJECTING A DECLINE CONSTRUCTION EMPLOYMENT BUT EVERYTHING, AND PROBABLY MANUFACTURING IS ABOUT FLAT, BUT EVERYTHING ELSE WILL GROW AT A MUCH MORE MODEST PACE. YOU KNOW, RELATIVE TO MANY, MANY, MANY OTHER COMMUNITIES THIS IS A POSITIVE STORY. RELATIVE TO OUR RECENT PAST, THE GROWTH OBVIOUSLY IS NOT AS GOOD. SO I GUESS TO SOME DEGREE IT DEPENDS WHICH LENS YOU LOOK AT THAT TIME THROUGH, HALF EMPTY OR HALF FULL. WHAT IT DOES SUGGEST IS THE ISSUES FACING CERTAINLY ALL OF YOU AS POLICY MAKERS AND THE COMMUNITY AS A WHOLE WILL BE A LITTLE DIFFERENT THE NEXT 18 MONTHS AS IT WAS YEAR ARE TWO YEARS AGO. AND SO I GUESS I'LL JUST ABOUT ON THROUGH THE LONGER TERM STUFF. DO YOU WANT TO STOP AND TAKE QUESTIONS? OKAY.

COUNCIL MEMBER, KIM.

LOOKING AT THE HOUSING NUMBERS DO HAVE YOU INFORMATION OR IS IT POSITIVABLE TO GET INFORMATION ON THE HOME SALES AND HOW WELL THEY ARE DOING IN THE OUTLYING AREAS VERSES MORE CENTRAL CITY BECAUSE THERE IS THE FACTOR OF FUEL AND I KNOW IN PR THEY HAD A STORY ABOUT HOME SALES IN CITIES IN THE NATION, LYING FURTHER OUT, THEY ARE VACANT BECAUSE THEY, THE BUILDERS UNDERESTIMATED THE ACTUAL COST OF TRANSPORTATION TO FAMILY'S BUDGET TO GET TO THE HOME AND THAT IS WHY THEY'RE NOT SELLING. IS THERE ANYWAY TO GET THAT INFORMATION IN THE AUSTIN AREA.

THERE IS A COUPLE WAYS G ON-LINE TO A&M REAL ESTATE RESEARCH CENTER AND THEY WILL GIVE YOU DATA BROKEN DOWN TO THE COUNTY LEVEL. I THINK IF YOU WANT TO GO BELOW THE COUNTY LEVEL, MLS, PROBABLY IN A RESPONSE TO CITIES AND PUBLIC SECTOR BODIES WOULD PROBABLY BE PRETTY RESPONSIVE IN TERMS OF HELPING YOU BREAK IT DOWN BUT SUB GEOGRAPHY.

DO YOU HAVE ANY SENSE OF HOW HOME SALES ARE DOING?

MY SENSE IS THAT HOMES ARE STILL SELLING REASONABLY WELL IN THE SORT OF, I'M GOING TO SAY 175 TO 350 RANGE. JUMBO MORTGAGES ARE TOUGH. I MEAN, THERE WERE BASICALLY NO JUMBO MORTGAGES AVAILABLE FOR A WHILE AND I'M NOT SURE THERE IS MUCH AVAILABLE OUT THERE NOW. AND ALSO MY SENSE IS THAT ENTRY LEVEL HOUSE, PER WHAT YOU WERE SAYING, IS ALSO SUCHING. SO SORT OF IN THAT MID RANGE WHERE, YOU KNOW, PEOPLE STILL HAVE JOBS AND SORT OF REASONABLE CREDIT SCORES AND ALL THAT MY IMPRESSION IS THINGS ARE GOING REASONABLY WELL.

SO IT IS PROBABLY SOMETHING WE NEED TO KEEP INTO CONSIDERATION AS WE ARE DOING AFFORDABLE HOUSING, SMART HOUSING AND YET THE LENDERS ARE STRICTER IN TERMS OF THEIR REQUIREMENT, FINDING QUALIFIED FAMILY TO BE ABLE TO TAKE ON THE LOANS TO RECEIVE LOANS FOR THE AFFORDABLE HOUSING WE'RE DOING IS SOMETHING

WE NEED TO CONSIDER AS WELL.

LET ME ALSO MENTION, COUNCIL MEMBER, YOU REMINDED ME OF SOMETHING I MEANT TO MENTION ALONG THE WAY. ONE THING WE ARE SEEING IN OTHER MARKETS IS LENDERS PULLING HOME EQUITY LINES. WELLS FARGO IS DOING THAT IN SOME MARKETS. HAVE YOU A HOME EQUITY LINE OF CREDIT AND WELLS FARGO SAYS NOT ANY MORE YOU DON'T. IT IS BECAUSE OF UNDERLYING CONCERNS ABOUT THE ASSET VALUE OF THE HOUSE WHICH IT IS LENT AGAINST. I'VE NOT SEEN THAT YET IN THE AUSTIN MARKET BUT IF THAT HAPPENS HERE, THAT IS POTENTIALLY A WORRISOME THING.

COUNCIL MEMBER COAL, THEN McCRACKEN.

CAN YOU COMMENT, I GUESS IT IS A FOLLOW-UP ON COUNCIL MEMBER KIM'S QUESTION ABOUT THE OUTLYING AREAS VERSES INNER CITY, AND THE SUB PRIME ISSUE AND THE IMPACT OF THAT.

THERE IS SOME DATA OUT THERE ON SORT OF LEVEL OF SOME -- I CAN SAY THIS, SUB PRIME LENDING, BY MARKET, ALTHOUGH IT IS NOT BROKEN DOWN, AT LEAST I HAVEN'T SEEN IT BELOW SORT 6 OF THE METROPOLITAN AREA LEVEL. AUSTIN HAS COMPARED TO OTHER MARKETS A RELATIVELY LOW LEVEL OF SUB PRIME LENDING. SO, YOU KNOW, AGAIN, IT IF YOU LOOK AT THAT DELINQUENCY MARKET ACROSS THE COUNTRY, WE'VE NOT HAD THE SAME LEVEL OF SUB PRIME LENDING. I AM, FROM MY POINT OF VIEW, LESS CONCERNED ABOUT PEOPLE WHO OWN THE HOMES GETTING IN TROUBLE AND NOT BEING ABLE TO MAKE THEIR MORTGAGE PAYMENTS, THOUGH THERE WILL CERTAINLY BE SOME OF THATS ARE BUT MORE TO COUNCIL MEMBER KIM'S POINT, THERE ARE PEOPLE IN THE PAST WHO WOULD HAVE BEEN ABLE TO BUY A HOME WOULD NOT BE ABLE TO QUALIFY IN THE NEAR TERM HERE. WHAT THAT MAY DO IS SHIFT SOME DEMANDS INTO THE RENTAL MARKET WHICH HAS BEEN SHIFTED OUT OF THE RENTAL MARKET THE LAST COUPLE YEARS. COUNCIL MEMBER McCRACKEN.

JON, WHETHER THE PROJECTIONS ON NEW HOTEL CONSTRUCTION AND EXPANSION OF SUPPLY, AND THEN WHAT DOES THAT POTENTIALLY MEAN FOR THE GROWTH OF BED TAX REVENUE FOR THIS REGION.

I HAVEN'T RUN THE PROJECTIONS ON THAT SO I DON'T KNOW. I'M LIKE EVERYONE ELSE, DRIVING AROUND AND A HOTEL IS GOING THERE AND A HOTEL IS GOING THERE. I THINK WHAT HAD L HAPPEN IS ONE OR TWO PLANNED HOLDS PROBABLY WON'T HAPPEN BECAUSE THEY ARE PROBABLY HOOKED TO AN OVERALL PROJECT THAT WON'T HAPPEN. GIVEN OCCUPANCY RATES, GIVEN THE APPEAL OF AUSTIN, AND FRANKLY GIVEN THE DOLLAR SITUATION WHERE DOMESTIC TRAVEL NOW IS MORE APPEALING THAN OVERSEAS TRAVEL, AUSTIN IS A HOT SPOT FOR TOURISM. WE'VE DONE A FINE JOB OF CREATED A WIDE VARIETY OF ATTRACTIONS AND A GREAT JOB OF CREATING A BUZZ, SO I THINK IT WILL GO

UP BUT I HAVEN'T DONE THE NUMBERS ON THAT.

TALKING TO SOME LODGING PROFESSIONALS IN TOWN, A 70% OCCUPATION RATE IS ACROSS-THE-BOARD IN THE CITY. THAT MEANS FOUR NIGHT AS WEEK EVERY ROOM IN THE CITY IS BOOKED.

THAT IS RIGHT.

MOST OF THE DAYS OF THE WEEK, YOU GO NOT GET A HOTEL ROOM IN AUSTIN, ESPECIALLY DOWNTOWN.

RIGHT.

AND SO -- AND WE HAVE LOST THREE MAJOR CONVENTIONS BECAUSE THEY COULDN'T EVEN GET THE BLOCKS OF ROOMS TWO AND A HALF YEARS FROM NOW. AND SO WHEN YOU SEE A 70%, WHAT THAT REALLY MEANS IS THERE IS FIVE NIGHT AS WEEK YOU CAN'T GET A HOTEL ROOM IN DOWNTOWN AND IT IS 40% OCCUPANCY ON SUNDAY NIGHT BUT 100% THROUGHOUT THE COURSE OF THE WEEK MANY WEEKS. SO I THINK WE ARE GOING TO SEE ROBUST OPPORTUNITIES FOR NEW HOTELS, PARTICULARLY WITH THE PRODUCT ACROSS THE STREET, A SECOND CONVENTION CENTER HOTEL, THAT REALLY DOES COMPLIMENT THE MARKETABILITY OF THE CONVENTION CENTER AND BRINGING IN LARGER GROUPS.

I AGREE.

MAYOR PRO TEM.

I WAS A LITTLE LATE GETTING IN, HAVE YOU TALKED ABOUT THE OFFICE MARKET HERE?

NO, I HAVEN'T TALKED ABOUT IT AT ALL. I DON'T HAVE ANY NEW INFORMATION OTHER THAN WHAT I, CHARLES HINSTAT TOLD ME AND HE THINKS THE OFFICE MARKET IS ON ITS WAY TO BEING PRETTY SIGNIFICANTLY OVERBUILT AND THAT IT IS OVERBUILT IN PARTICULAR IN SUBURBAN MARKETS, AGAIN, THE CENTRAL CITY OFFICE PRODUCT IS NOT THAT AVAILABLE. I THINK THERE IS POTENTIALLY AN OPPORTUNITY IN OFFICE CONDO IN THE CENTRAL CITY, IT'S PARKING, CAN I FIND A PLACE TO PARK PEOPLE. THE LAST TIME I TALKED TO CHARLES ABOUT IT A COUPLE MONTHS AGO, WE COULD HAVE AS MUCH AS DOUBLE MARKET PRODUCT COMING ON-LINE THIS YEAR, ABOUT TWICE WHAT WE ACTUALLY NEED BASED ON JOBS --

AND HOW ABOUT THE CONDO MARKET, THE SAME?

YOU KNOW, I HAVEN'T DONE SERIOUS ANALYTICAL WORK ON IT BUT MY SENSE IS THAT A COUPLE OF DOWNTOWN CONDO PROJECTS WILL NOT END UP HAPPENING, WILL END UP BEING PUT ON HOLD. BUT I DO THINK THAT THERE IS A BLURRING IN THE CONDO MARKET. I

KNOW THAT WE THINK THAT THE DOWNTOWN CONDOS ARE BEING PURCHASED BY LOCAL RESIDENTS, BUT THERE IS A SIGNIFICANT NUMBER BEING PURCHASED -- THERE ARE A SIGNIFICANT NUMBER BEING PURCHASED. IS F AUSTIN IS A SECOND-HOME DESTINATION WHICH I BELIEVE IT IS IN THE PROCESS OF BECOMING, THEN ARE THOSE FOLKS TOURISTS OR NOT? KIND OF IN THE GRAY AREA. I CAN THE POINT IS THAT HELPED BOLSTER DEMANDS FOR CONDOS.

THE REASON I'M ASKING AND WHY I'M INTERESTED ABOUT THE HOTEL AND TOURISM MARKET, HOPEFULLY IT WILL CONTINUE TO HOLD UP, AND I THINK IT WILL, I THINK THAT WE'VE DONE SEVERAL THINGS IN THE CITY, PARTICULARLY THE WALLER CREEK PROJECT, THAT SHERYL COLE BREATHE NEW LIFE IN WHICH ALL OF THE COUNCIL SUPPORTED, I THINK THAT IS GOING TO BE A REALLY GREAT ADDITION TO THOSE PEOPLE WHO VISIT OUR CITY AND I DO THINK THAT THE COUNCIL ADDED SOME MONEY IN THIS CURRENT, IN OUR PRESENT BUDGET FOR THE SUSANNAH DICKENSON HOUSE. THESE HISTORIC HOUSES THAT ARE SITTING ALL AROUND THESE DOWNTOWN HOTELS AND THE TOURIST AREA, REALLY NEED TO BE UPDATED AND MADE THE ATTRACTION THEY REALLY ARE. SO I THINK THAT STARTS IN MAY. BUT I'VE GOT SOME IDEAS I WILL TRY TO WORK WITH THE COUNCIL ON AND LOOK AT SEVERAL OTHER DOWNTOWN AREAS THAT I THINK ARE UNDERUTILIZED AND CAN BECOME ENHANCED FOR TOURISM IN THIS AREA AND I DON'T THINK WILL BE VERY EXPENSIVE. I THINK IT IS A WORTHWHILE THING TO DO TO MAKE OUR DOWNTOWN AS ATTRACTIVE AND PLAY UP THE HISTORIC AREAS AND KEEP THOSE PEOPLE COMING HERE WHILE THE DOLLAR IS UNFAVORABLE FOR THEM MAYBE BUT VERY FAVORABLE FOR US IF THEY ARE GOING TO BE COMING HERE.

ABSOLUTELY.

JON, YOU WANT TO WALK US THROUGH THE LONGER TERM.

SURE. I WILL JUMP TO THE THIRD BULLET BECAUSE IT IS OFF OF WHAT COUNCIL MEMBER DUNKERLEY WAS SAYING. WHAT IS APPEALING TO TOURISTS IS ALSO APPEALING TO PEOPLE WHO WANT TO LIVE AND WORK HERE AS WELL. WE BELIEVE AN INCREASING PORTION OF MY PRACTICE IS LOOKING AT THE ROLE OF PLACE MAKING AS IT RELATES TO ECONOMIC DEVELOPMENT, THE LOOK AND FEEL OF THE COMMUNITY, TRANSPORTATION INFRASTRUCTURE, PATTERNS. WE ARE CREATING THE SENSE OF AUTHENTICITY, PART OF WHAT YOU ARE TALKING ABOUT IN THE HISTORIC HOUSE US.

AND DOWNTOWN PARKS.

CERTAINLY, RECREATIONAL OPPORTUNITIES, ALL THOSE THINGS FIT NICELY TOGETHER WHETHER YOU ARE TALKING ABOUT MAKING IT APPEALING TO SOMEONE VISITING FROM DOWNTOWN, SOMEONE CONTEMPLATING A SECOND HOME PURCHASE, SOMEONE THAT WILL RETIRE HERE OR MOVE A FAMILY HERE. I THINK THAT THAT IS SOMETHING, WHAT I SAY TO POLICY MAKERS ALL THE TIME IS THINK ABOUT ALL THE DECISIONS THE CITY MAKES

RELATED TO ALL THESE THINGS AND PUT YOUR ECONOMIC DEVELOPMENT HAT ON SO WHEN YOU WERE THINKING THINKING ABOUT THAT, IT HAS DIRECT AFFECT ON THE OUTLOOK IN THE FUTURE OF THE LOCAL ECONOMY, ESPECIALLY MEDIUM AND LONGER TERM. I WANTED TO SORT OF EMPHASIZE THAT BECAUSE IT IS ON MY LIST UP THERE. THE OTHER TWO THINGS ARE REALLY OF INTEREST, ONE IS DEMOGRAPHIC TRENDS AND I WILL SHOW YOU THIS PICTURE ON MIGRATION. THIS IS A PLACE IN PART BECAUSE WE DO A GOOD JOB OF PLACE MAKING THAT PEOPLE WANT TO COME TO SO WE ARE CONTINUING TO HAVE TREMENDOUS MIGRATION TO THE AUSTIN AREA. IF IN THE PROCESS, OVER THE LAST 10 OR 15 YEAR, WE'VE CHANGED THE STRUCTURE OF OUR LOCAL ECONOMY. IT IS NOT BASED ON THE TRADITIONAL PILLARS OF GOVERNMENT AND EVEN HARD TECHNOLOGY IS REALLY MUCH MORE BASED ON APPLICATION OF KNOWLEDGE AND ADDING VALUE THROUGH SERVICES AND THROUGH EXPERIENCES. AND SO SHOW YOU SOME OF ALL THESE, BUT IT ALL SORT OF INFORMS WHERE WE'RE GOING IN THE MEDIUM AND LONGER TERM. WE USED TO SAY THAT AUSTIN WOULD DOUBLE EVERY 20 YEAR, NOW IT IS GOING TO DOUBLE EVERY 25 YEAR BECAUSE WE ARE HAVING FEWER KIDS, BUT AS A PERCENTAGE, REALLY, IT IS STILL A PLACE WHERE THERE IS A TREMENDOUS AMOUNT OF MIGRATION. WE'RE GOING TO PUSH, YOU KNOW, ON TOWARD THREE MILLION PEOPLE HERE IN THE NOT ENORMOUSLY DISTANT OPPORTUNITY. WHICH MEANS IN COMBINATION OF SAN ANTONIO, WHICH WILL BE OF COMPARABLE SIZE AND SCOPE, WE'RE TALKING ABOUT AN AREA AS BIG AS THE METRO PLEX. WE WILL AND BIG METROPOLITAN REGION IN THE NOT-TOO-DISTANT OPPORTUNITY. WHAT IS FUELING THAT IS TREMENDOUS IN MIGRATION. THIS IS A CHART THAT SHOWS AS A PERCENTAGE OF THE CURRENT POPULATION IN THE METRO AREA, 2007, THE NUMBER OF PEOPLE, THE PERCENTAGE OF PEOPLE ON A NET BASIS THAT HAVE MOVED HERE SINCE 2000, 234,000 PEOPLE HAVE MOVED THERE AND THAT IS EXTRAORDINARY. THE ONLY COMMUNITY I WOULD SAY IN OUR PEER GROUP THAT EXPERIENCED ANYTHING SIMILAR TO THAT IS CHARLOTTE NORTH CAROLINA. IT IS INTERESTING, PEOPLE FROM THE WEST COAST COME TO AUSTIN, PEOPLE FROM THE EAST COAST GO DOWN TO CHARLOTTE. WE ARE THE TWO CENTERS OF MIGRATORY ACTIVITY FOR A NUMBER OF REASONS. IF YOU LOOK AT SOME OTHER COMMUNITIES UP THERE, LOOK AT THE TWO ON THE RIGHT, I PUT UP SAN DIEGO AND SAN JOSE, THEY ARE MODESTLY NEGATIVE. WHILE THEY'VE HAD POPULATION GROWTH OVER THAT SEVEN-YEAR PERIOD IT IS ALL INTERNAL, WHAT IS CALLED COHORT SURVIVE, BIRTHS AND DEATHS, AND IF YOU PEEL THOSE DOWN FURTHER YOU WILL SEE BOTH MARKETS ARE EXPORTING U.S. CITIZENS AND IMPORTING FOLKS FOLKS FROM OVERSEAS SO IN SAN DIEGO YOU WILL HAVE 10 U.S. CITIZENS LEAVE AND NINE FOLKS MOVE IN FROM OVERSEA, SPECIFICALLY FROM ASIA IS WHERE A LOT ARE COMING FROM SO THE NUMBER IS NEGATIVE. BY CONTRAST HERE IN AUSTIN, WE'VE HAD A MIX. WE HAVE PEOPLE COMING FROM ALL OVER THE UNITED STATES, ABOUT ' ARE A HAD A SIGNIFICANT IN MIGRATION FROM OVERSEAS AS WELL. OF THAT 234,000 AND CHANGE NUMBER ABOUT A THIRD OF HAD A HAPPENED BETWEEN THE SUMMER OF '06 AND THE SUMMER OF '07.

AND IN FACT, NUMBER RELEASED THAT THE GROUP GREW BY 65,000 NET NEW RESIDENTS.

LAST YEAR WE GREW BY MORE NET NEW RESIDENTS THAN DID 38 STATES.

CORRECT. SO GUESS WHAT, ALL THE STORIES ABOUT TRAFFIC, MOPAC BEING A PARKING LOT WITH A BUNCH OF CALIFORNIANS, IT IS TRUE. THE CONSENSUS BUREAU SAID SO. WE NEEDED THEM TO TELL US THAT, RIGHT. THERE IS NOTHING OUT THERE TO SUGGEST THE APPEAL FOR OUR COMMUNITY FOR MIGRATION GOES S GOING DOWN.

ATTRACTIVE CITIES ATTRACT PEOPLE.

THAT IS CORRECT. TAKING LOOK AT OUR ECONOMIC STRUCTURE, JUST A COUPLE OF POINTS HERE, I WILL SHOW YOU SOME PICTURES HERE ON RESTRUCTURING AWAY FROM SOME OF THE TRADITIONAL BASES, OUR GROWTH IS COMING FROM A COMBINATION OF THIS UNDERLYING MAYGRATION PANT TERN AND POP POP GROWTH -- AND UNDERLYING MIGRATION PATTERN AND POPULATION GROWTH. THERE ARE SHIFTS IN THESE PATTERNS THAT ARE IMPORTANT AS WELL AND WE WILL TALK ABOUT THOSE. I THOUGHT IT WAS CUTE TO USE RED, YELLOW AND GREEN BUT AS I LOOK AT IT ON THE DESCRIBE IT IS NOT SO GREAT. THE GOVERNMENT WAS A QUARTER OF THE JOBBING IN 2007, IT DROPPED 7 PERCENTAGE POINTS. MANUFACTURING DROPPED 5 PERCENTAGE POINTS. SOME OF THAT IS DUE TO THE RESTRUCTURE OF THE MANUFACTURING PROCESS WHERE MUCH MORE IS DONE NOW OVERALL WITH FEWER PEOPLE, BUT SOME OF THAT IS BECAUSE WE HAVEN'T HAD THAT MUCH GROWTH IN MANUFACTURING IN AUSTIN MANUFACTURING IN AUSTIN RELATIVE TO OTHER SECTORS. DO YOU HAVE GROWTH IN CONSTRUCTION AND THAT MAY FALL BACK. DO YOU HAVE GROWTH IN THE TRADE SECTOR THAT REFLECTS CONSUMERTIVE. AND YOU HAVE LOTS IN LEISURE AND PROFESSIONAL SERVICES AND SOME OF THAT REFLECTS THE UNDERLYING STRUCTURAL CHANGE IN OUR ECONOMY. SO IF YOU WANT TO LOOK AT THAT. SO BACK IN 2003, I WORKED ON A TASK FORCE WITH MAYOR GARCIA AND A COUPLE COUNCIL MEMBERS AS WELL, ONE THING WE TRIED TO IDENTIFY IS WHAT ARE WE GOODst A AT AS -- GOOD AT AS A COMMUNITY. THE COMMON DENOMINATOR AT THE TIME WAS ADDING VALUE THROUGH THE APPLICATION OF KNOWLEDGE AND RELY ON INNOVATION AND CREATIVITY. I DON'T THINK THAT HAS CHANGED IN THE BROAD SENSE BUT I THINK THE DETAILS OF IT HAVE CHANGED QUITE A BIT. SOME OF THOSE DETAILS LOOK LIKE THIS. FIRST OF ALL THIS IS OUR TECHNOLOGY EMPLOYMENT LEVEL OVER THE LAST X NUMBER OF YEARS. WE DON'T HAVE 2007 DATA YET BUT I DON'T EXPECT IT TO BE ANY DIFFERENT THAN THE 2006 NUMBERS. WE HAVE LOST 20,000-PLUS TECHNOLOGY JOBLESS FROM THE PEAK IN 2000. I WILL GRANT YOU SOME OF THOSE JOBS WERE ARTIFICIALLY CREATED. I MEAN WORKING AT MYGREAT IDEA.COM AND BURNING THE VC CASH, THAT IS A BUBBLE. THE ORANGE LINE IS TECHNOLOGY RELATED PRODUCTS, AND THE BLUE LINE IS TECHNOLOGY-RELATED SERVICES. I CHEATED A LITTLE, THROUGH SOFTWARE INTO SERVICE, YOU CAN DEBATE THAT, MAYBE IT SHOULD BE A THIRD CATEGORY OFF WHATEVER, BUT I THINK THE POINT IS MADE WE ARE MOVING IN OUR COMMUNE FREE A TECHNOLOGY SECTOR AWAY FROM A HARD TECH BASE TOWARDS A SOFT TECH BASE. SO WHEN YOU TAKE A LOOK AT KIND OF WHERE IT GOES, THIS IS SOME OF WHAT WE TALKED ABOUT LAST FALL, WHAT IS OUR NEXTITY RATION IN TERMS OF NEW

TECHNOLOGY INDUSTRIES. WE AS A COMMUNITY AND WE AS A COUNTRY WILL HAVE COMPETITIVE ADVANTAGES GOING FORWARD. WHERE WE WILL DO WELL A CITY, WE WILL CREATE VALUE BY DOING THAT, WHERE WE WILL NOT DO AS WELL, NOT BE AS COMPETITIVE IS WITH STANDARDIZED PRODUCTS. FRANKLY, WE WILL HAVE TO COMPETE ON COST ON THAT AND WE WILL BE NOT AS STRONG A POSITION AS WE ARE ON THE INNOVATION AND CREATIVE SEE SIDE. IT GIVES YOU A QUICK SNAPSHOT. DO YOU WANT TO STOP WITH THAT BEFORE WE GET INTO THE SALES TAX STUFF.

YES, QUESTIONS FOR JON, COUNCIL? IF NOT, LET'S GO INTO THE SALES TAX.

OKAY. IT'S NOT AS GOOD AS IT WAS BEFORE. [LAUGHTER] THAT IS KIND OF THE BOTTOM LINE. IT HAS CLEARLY SLOWED DOWN. ONE OF THE THINGS I THINK IS INTERESTING ABOUT THIS WE ARE REFLECTING PATTERNS WE ARE SEEING IN ALL THE MAJOR CITIES IN TEXAS, AND THAT IS PART OF -- SO WE ARE NOT THE ONLY ONES EXPERIENCING A SLOWING IN SALES TAX GROWTH. SOME OF IT IS BECAUSE WE HAVE MOVED, SOME OF THE RETAIL ACTIVITY OVER TIME, OUT TO SOME OF THE SUBURBAN MARKETS. THE OLD ADAGE IS RETAIL DOES CHASE ROOFTOPS. WE ARE SEEING THAT TO SOME DEGREE. SOME OF IT BECAUSE WE TAX BUILDING MATERIALS IN TEXAS AND AS WE'VE HAD AN EXTRAORDINARY CONSTRUCTION BOOM WE HAD SOME SALES TAX GROWTH ASSOCIATED WITH THAT. AS THAT BEGINS TO SET BACK A LITTLE BIT YOU WILL SEE A SLOW DOWN IN SALES TAX AS WELL. SO LET ME SHOW YOU SOME PICTURES ON THAT. THIS IS FISCAL YEAR INFORMATION, YEAR TO DATE, CITY OF AUSTIN. AGAIN, VERY, VERY STRONG GROWTH THE LAST COUPLE OF YEARS AND REALLY HISTORICALLY STRONG GROWTH TO SOME DEGREE. EVERYONE REMEMBERS PROBLEMS ASSOCIATED WITH THE WAKE OF THE 9/11 SITUATION, WE ARE CLEARLY BACK TO WHERE WE WERE IN TERMS OF GROWTH, 2004, 2005 RANGE, OPPOSED TO THE 2006 AND 2007. I APOLOGIZE FOR THE SORT OF HARD TO READ CHART BUT I WANTED TO PUT SOME OTHER MAJOR CITIES IN TEXAS UP THERE. THIS IS DONE ON A CALENDAR YEAR BASIS BECAUSE I PULLED THE DATA FROM THE CONTROLLER'S OFFICE TO GET THE DATA FOR THE COMMUNITIES BUT THE TRENDS ARE PRETTY SIMILAR WHEN YOU WHEN YOU GET RIGHT DOWN TO IT. EVERYONE RODE THE HOUSING WAVE. I HAVE NO IDEA WHAT SAN ANTONIO DID TO GET THEIR GROWTH IN 2006 BUT THE PATTERN SIMILAR IN ALL THE MAJOR CITIES. IN COMPARISON TO SOME COMMUNITIES IN OUR REGION, ROUND ROCK, SAN MARKUS, GEORGETOWN, WE ARE A LITTLE BIT SLOWER THAN SOME AREA, ALTHOUGH NOT TOO FAR OFF IN THE CURRENT SITUATION IN PART REFLECTING THE MOVEMENT OF RETAIL OUT TO SOME SUBURBAN MARKETS AND VERY, VERY FAST HOUSING DEVELOPMENT OUT THERE IN 2004, 2005 AND 2006.

IT APPEARS THAT AUSTIN'S SALES TAX IS LESS MATERIAL THAN OUR SUBURBAN NEIGHBORS.

I THINK SO. SOME OF THAT IS BECAUSE YOU HAVE SMALLER MARKETS, OBVIOUSLY, AND PARTICULARLY IN BOTH OF THOSE MARKETS, ESPECIALLY IN GEORGETOWN, THEY'VE ADDED A FAIR AMOUNT OF RETAIL CAPACITY SO YOU'VE GOT THESE EXTRAORDINARY

LEVELS OF GROWTH THAT REFLECTED NEW SHOPPING OPPORTUNITIES.

MAYOR.

YES.

WHAT ABOUT THE PERCENTAGE OF SALES TAX OF THE REGION THAT EACH OF THESE COMMUNITIES GOT. WHEN I FIRST CAME HERE, IT WAS LIKE AUSTIN GOT ABOUT 75% AND RECENTLY WE'VE BEEN HANGING AROUND 50%. I'M WONDERING -- I KNOW THAT REFLECTS EXACTLY WHAT YOU ARE TALKING ABOUT. DO WE KNOW RIGHT NOW, IS THAT STAYING ABOUT THE SAME?

I WOULD THINK GIVING THE NUMBERS I'M LOOKING AT, IT IS PROBABLY DECLINING SLIGHTLY. I DON'T HAVE THE NUMBERS AT MY FINGERTIPS, THOUGH IT IS EASY TO PULL TOGETHER, BUT GIVEN THE FACT THAT OTHER COMMUNITIES ARE GROWING MORE RAPIDLY THAT WOULD SUGGEST THAT IS GOING DOWN.

LAST YEAR WHEN YOU WERE HERE, TALKING TO THE STATE ABOUT TRYING TO CAP THE REVENUE, THEY WERE TRYING TO OFFER US AS AN OFFSET THAT WE COULD RAISE OUR SALES TAX 2% AND I RESPONDED, WHY WOULD WE DO THAT AND DRIVE EVEN MORE OF IT INTO THE SURROUNDING AREAS. SO AT LEAST THE POT IS GETTING BIGGER.

THAT IS GOOD NEWS. AND THIS IS -- I'M SORRY. GO AHEAD.

LET ME ASK YOU A QUICK QUESTION, I DIDN'T REALIZE WE WERE TRAILING OUR COMMUTER CITIES BY THIS MUCH. HAS -- IS THERE A PRIMARY REASON FOR THAT?

YEAH, I THINK SO. WELL, I THINK THERE ARE TWO PRIMARY REASONS. ONE IS THAT YOU'VE SEEN MORE GREENFIELD DEVELOPMENT IN THOSE COMMUNITIES THAN DO YOU IN THE CITY OF AUSTIN PROPER. AND SO BECAUSE WE DO TAX BUILDING MATERIALS, YOU SEE A RELATIVELY HIGHER LEVEL OF SALES TAX IN PART ATTRIBUTABLE TO NEW SUBDIVISIONS BEING BUILT. I THINK THAT IS ONE. THE SECOND FACTOR GOING ON, PARTICULARLY IN PLACES LIKE GEORGETOWN AND TO SOME DEGREE IN ROUND ROCK AND SAN MARKUS, ALTHOUGH -- SAN MARKUS, ALTHOUGH NOT AS MUCH, YOU ARE SEEING SIGNIFICANTLY NEW SHOPPING DEVELOPMENT. YOU HAVE NEW RESIDENTS MOVING IN AND THEY SHOP LOCALLY OPPOSED TO MAYBE THEY LIVED IN AUSTIN BEFORE OR SOMEWHERE ELSE SO WE DON'T CAP AS MUCH AS WE USED TO. THIS IS, AGAIN, A CITY OF EXTENT SALES TAX BUT DIFFERENT SECTORS OF THE ECONOMY AND TWO THINGS SORT OF JUMP OUT. ONE IS GENERAL MERCHANDISE STORES, HAVE PICKED UP A LARGER SHARE WITH SPECIALTY SPORTING GOODS STORES AND BOOK AND MUSIC STORES. THAT IS INTERESTING. I HAVE A THEORY OR TWO ABOUT WHY THAT IS HAPPENING. OBVIOUSLY BUILDING MATERIALS TAKE A STRONGER SHARE AND MOST OF THE OTHERS IT IS A LITTLE BIT OF A MARGINAL CHANGE. TWO THINGS ARE GOING ON WITH THE INCREASING SHARE OF GENERAL MERCHANDISE

STORE, MANY ARE OFFERING PRODUCTS THAT TRADITIONALLY USED TO BE SOLD IN SPECIALTY STORES, MUSIC BEING AN EXAMPLE. ALSO YOU ARE SEEING AGAIN IN MUSIC STORES, YOU ARE SEE, SOME IMPACT OF ON-LINE SHOPPING. BOTH IN TERMS OF PEOPLE'S GENERAL ABILITY TO BUY MUSIC ON-LINE AND THE GENERAL PROBLEMS WITH THE RECORD INDUSTRY AS WELL SOME OF IT IS CHANGING OVER TIME. ONE THING I SORT OF WANT TO PUT A LITTLE BIT OF FOCUS ON THIS IS THIS NOTION IN A COMMUNITY THAT RELIES HEAVILY ON SEAL'S TAX -- WE WILL TALK SEALS THAT WOULD BE AN INTERESTING ECONOMIC DEVELOPMENT STRATEGY. THE SALES TAX. THEY'VE GOT A COUPLE REALLY HARD-WORKING SEALS [LAUGHTER] IS THE GROWING ROLE OF E-COMMERCE. DO WE NOT HAVE SPECIFIC ON THE PERCENTAGE OF ON-LINE SALES IN AUSTIN BUT THIS IS DATA BEING TRACKED NOW BUT THE COMMERCE DEPARTMENT. ON E-COMMERCE AS A PERCENTAGE OF TOTAL RETAIL SALES NATIONWIDE AND I SHOWED THAT TO SOMEBODY THE OTHER DAY AND THEY STEAD LOOKS LIKE A SPRINT COMMERCIAL, MORE BARS IN MORE PLACES. IT IS A STEADY UPWARD MARCH. OBVIOUSLY THAT HAS IMPLICATIONS. NOT ALL ON-LINE SALES ARE NOT TAXABLE. THERE ARE SOME THAT ARE BUT THERE ARE A NUMBER THAT ARE NOT AND IT IS INTERESTING TO THINK ABOUT WHERE THIS GOES, GOING FORWARD, FOR SURE. AND IN PARTICULAR, THEN, THIS IS SOME OTHER DATA THAT IS KIND OF HARD TO READ BUT IT IS THE DEMOGRAPHICS OF INTERNET USE. AND AGAIN, THIS IS A NATIONAL NUMBER, BUT IT BASICALLY SAYS IF YOU ARE YOUNG, REASONABLY WELL EDUCATED, AND FAIRLY AFFLUENT, YOU ARE ON-LINE ALL THE TIME. WHICH I THINK IS TRUE, AND THAT IS WHO WE ARE AS A COMMUNITY SOME OF STRUCTURALLY AS WE THINK ABOUT SALES TAX, I THINK THIS IS A FACTOR WE WILL HAVE TO FIGURE OUT HOW TO PAY ATTENTION TO. I MEAN, I DON'T HAVE ANY MAGIC SOLUTION OR ANY SORT OF MAGIC INSIGHT EXCEPT TO SAY THIS IS AN ISSUE THAT WILL HAVE A GROWING PRESENCE GOING FORWARD. CONCLUSIONS ON ALL OF THIS AUSTIN FOR YEARS CONTINUES TO PERFORM ABOVE THE LINE. WE ARE NOT IMMUNE TO WHAT IS GOING ON ON NATIONALLY BY ANY STRETCH OF THE IMAGINATION. BUT THIS BAD TIME DOES BETTER THAN EVERYBODY ELSE AND IN GOOD TIME DOES EVERYBODY THAN EVERYBODY ELSE AND THAT CONTINUES TO BE THE CASE. I THINK OUR HOUSING MARKET CONTINUES TO BE RELATIVELY BALANCED. I DON'T THINK WE WILL FIND A VAST OVER SUPPLY OF HOUSING. IN PART, BECAUSE ONE THING I'VE SEEN IN AUSTIN IS PRICES HAVEN'T BEGUN TO REFLECT YET THE NEW MARKET REALITY. IF SOME FOLKS IN SOME PARTS OF AUSTIN WOULD BE WILLING TO CUT THE PRICE 10, 15, 20%, YOU WOULD SEE LOT OF HOUSES MOVE QUICKLY, I BELIEVE. I MENTIONED THIS BEFORE IN TALKING ABOUT CONSIST TALKING ABOUT CONSUMER SPENDING IS TO SEE IF WE DO SEE A PULL BACK IN THE HOME EQUITY LINES OF CREDIT BECAUSE THAT COULD HAVE A RELATIVELY SERIOUS IMPLICATION. BUT MY VIEW IS OUR LONG-TERM PROSPECTS STAY BRIGHT AS LONG AS WE STAY ATTRACTIVE TO TOURISTS AND RESIDENTS, AND FOLKS THAT MIGHT MIGRATE HERE, MUCH OF WHICH OF DRIVEN BY THE SAME THINGS. AND THE LAST THING IS IMPORTANT, TO COULD BE A LONG INVOLVED CONVERSATION, IF YOU THINK HOW WE ARE RESTRUCTURES THE ECONOMY IT MAKES PERFECT SENSE IN MAXIMIZING THE PUBLIC ECONOMY, BUT IN THE GREAT STATE OF TEXAS WE ARE MOVING MORE AND MORE TO AN ECONOMY TO THINGS THAT WERE NOT TAX INCENTIVE. THIS VERY ISSUE WAS ON THE

TABLE, WE WERE SEEING GROWTH IN SEGMENTS IN THE ECONOMY, IN PROFESSIONAL SERVICES IN MARKETING IN LEGAL ACTIVITY, IN RESEARCH AND DEVELOPMENT WHERE THERE IS NOT A LOT OF TAX HOOKS TO HANG ON TO AND WE FACED THAT IN A BIG WAY IN AUSTIN AND PUT THAT IN COMBINATION WITH SOME TRENDS TOWARDS SOME OF OUR RETAIL BASES IS REFLECTING PEOPLE MOVING INTO PERIPHERAL COMMUNITIES AND THE RISING ROLE OF E-COMMERCE AND ALL OF THAT, I THINK WE WILL HAVE TO PAY A LOT OF ATTENTION TO THAT GOING FORWARD. I DO THINK TOURISM IS A BIG AREA, THE MONEY THEY SPEND IS MOSTLY TAXABLE BUT IT IS SOMETHING TO PAY ATTENTION TO THIS YEAR, FIVE YEARS FROM NOW, 10 YEARS ON DOWN THE LINE. THERE YOU GO.

QUESTIONS FOR JON ON THE LARGER ECONOMIC INDICATORS. COUNCIL MEMBER McCracken.

ON THAT LAST POINT, I'M GATHERING WHAT YOU'RE SAYING IS TOURISM IS GROWING AS AN IMPORTANT SECTOR IN OUR ECONOMY BUT PARTICULARLY IN TERMS OF THE IMPORTANCE FISCALLY FOR THE CITY OF AUSTIN BUDGET IS IT IS EVEN BECOMING MORE COULDN'T POINT THAN THE OVERALL ECONOMY, IS THAT RIGHT?

THAT IS WHAT I'M SAYING.

FURTHER QUESTIONS, COMMENTS, BEFORE WE ROLL INTO OUR FORECAST? THANK YOU ALL. WELL DONE, AGAIN. LESLIE.

THANK YOU. SO NOW WE'LL BE GETTING INTO THE FIVE-YEAR FINANCIAL FORECAST FOR THE GENERAL FUND. WE WILL BE FOCUSING ON 2009 AS WE WALK THROUGH THAT. BRAD, OUR BUDGET OFFICER WILL BE WALKING YOU THROUGH THE FORECAST. HE WILL BE TAKING YOU THROUGH THE, BOTH THE REVENUE AND THE EXPENDITURE ESTIMATES, AND OUR GOAL TODAY REALLY I THINK AS THE CITY MANAGER INDICATED EARLIER IS TO GIVE YOU SOME VERY RELEVANT FINANCIAL INFORMATION THAT CAN REALLY START TO FRAME YOUR THINKING AS WE ENTER INTO BUDGET DEVELOPMENT. SO WE'RE NOT ASKING FOR SPECIFIC DIRECTION TODAY BUT WE CERTAINLY WELCOME YOUR INPUT. SO WE JUST HEART FROM JON THAT MORE MODEST GROWTH IS IN OUR FUTURE. I WANTED TO MAKE A FEW OBSERVATIONS UP FRONT BEFORE WE REALLY GET INTO THE MEAT OF THE FORECAST DOCUMENT. WE DO SEE THIS YEAR AS WE HAVE IN PREVIOUS YEARS THAT OUR GROWTH AND EXPENDITURES, OUR ESTIMATED GROWTH, IS OUTPACING OUR GROWTH IN REVENUE. GREG WILL BE TAKING YOU THROUGH OUR REVENUE PIE FOR THE GENERAL FUND AND WE DO HAVE A RELATIVELY HIGH RELIANCE ON SALES TAX REVENUE, IT IS ABOUT 28% OF OUR OVERALL REVENUE SOURCES FOR THE GENERAL FUND. AND JON NOTED AND YOU CAN SEE IN THE CHARTS HE PROVIDED IT IS MORE VOLATILE THAN PROPERTY TAX REVENUE AND WE ANTICIPATE SLOWER GROWTH IN THAT REVENUE SOURCE INTO NEXT YEAR. SO WE DO SEE SOME CHALLENGES AHEAD AS WE LOOK TO BALANCE THE 2009 BUDGET. OUR GOAL THIS YEAR IS WE'VE STARTED WORKING TO GENERATE SAVINGS IN THE CURRENT YEAR, WE THINK THAT THAT WILL BETTER POSITION

US FOR THE UP-COMING YEAR. AND BEFORE I TURN OVER TO GREG, I JUST WANTED TO TALK A LITTLE BIT ABOUT OUR APPROACH THIS YEAR. ONE THING WE'VE DONE THAT IS A LITTLE DIFFERENT IS WE'VE LOOKED AT SEVERAL REVENUE SENARIOS WHICH HE WILL BE WALKING YOU THROUGH FIRST OFF. AND WHAT WE WANTED TO DO THERE WAS VARY A COUPLE OF MAJOR ASSUMPTION, AND REALLY 2004 PRIMARY REVENUE SOURCE, PROPERTY TAX AND SALES TAX TO GIVE YOU AN IDEA HOW VARIATIONS IN EITHER THE PROPERTY TAX RATE OR THE SALES TAX GROWTH RATE COULD AFFECT OUR REVENUE ESTIMATES. SO WITH THAT, I WILL TURN IT OVER TO GREG.

THANK YOU, LESLIE. GOOD MORNING, MAYOR AND COUNCIL. AS LESLIE SAID, I'M GOING TO BEGIN WALKING YOU THROUGH OUR PROJECTIONS FOR OUR REVENUE AND EXPENDITURES AND IMPORTANTLY ALSO THE UNDERLYING ASSUMPTIONS BELOW EACH OF THOSE. SO I WANTED TO FIRST START WITH OUR REVENUE SIDE OF THE GENERAL FUND. S AND SO HERE, ON THIS SLIDE, IS THE TYPICAL CHART THAT WE SHOW YOU AND IT REALLY IS LOOKING AT OUR REVENUE SOURCES FOR OUR GENERAL FUND. OUR GENERAL FUND REVENUE RIGHT NOW ARE AMENDED BUDGET IS \$193 MILLION. AS YOU CAN SEAT FOUR PIECES, THE BIGGEST TWO PIECES ARE PROPERTY TAX AND SALES TAX, AND THE OTHER TWO PIECES ARE TRANSFERS FROM OUR AUSTIN ENERGY AND AUSTIN WATER UTILITY AS WELL AS OUR OTHER REVENUE, OUR FRANCHISE FEES, PERMITS, CHARGES FOR VISITING PARKS AND LABOR LIBRARY, THEY ARE 20% EACH. AS LESLIE MENTIONED, WHAT WE'VE DONE THIS YEAR IS A DIFFERENT TAKE, WE'VE LOOKED AT TWO BIGGEST COME POINTS OF OUR REVENUE -- COMPONENTS OF OUR REVENUE PIE WHICH IS PROPERTY TAX AND SALES TAX. WE WANT TO WALK YOU THROUGH THEM, LOOK AT SOME IN DEPTH AND THEN TALK ABOUT THE ASSUMPTIONS BEHIND THOSE.

AND GREG, IT WILL BE INTERESTING AT LEAST FOR ME TO SEE HOW, AS A PERCENTAGE OF OUR GENERAL FUND REVENUE, THESE FOUR COMPONENTS HAVE TRENDS, THE SALES OVER THE LAST 10 YEAR, MAYBE GOING BACK TO 2000 OR SOMETHING. THANK YOU. WE CAN CERTAINLY GET THAT TOGETHER FOR YOU, MAYOR. AND SO, I JUST WANTED TO START ON THE PROPERTY TAX REVENUE SIDE. OF DOORS STARTS WITH OUR -- OF COURSE THAT STARTS WITH OUR PROPERTY TAX RATE. RIGHT NOW THAT IS AT 40.34 CENTSS AND THIS WAS ACTUALLY SET LOWER THAN THE PRIOR YEAR TAX RATE. AND OUR TAX RATE HAS TWO COMPONENTS TO IT, THE FIRST IS 27.3 CENTSS AND THAT IS FOR OUR OPERATIONS IN MAINTENANCE. AND THE \$186 MILLION THAT THAT TAX, PIECE OF THE TAX RATE GENERATES, FLOWS INTO OUR GENERAL FUND TO PAY FOR THOSE DISBASIC CITY SERVICES, PUBLIC SAFETY, PUBLIC HEALTH, LIBRARY, OUR PARKS AND OUR DEVELOPMENT SERVICES. THE OTHER PIECE OF THE TAX RATE, THE 13-CENTS, GENERATES 89, ABOUT \$89 MILLION AND THAT FLOWS IN TO PAY FOR OUR DEBT SERVICE TO COVER THE BOND, THE DEBT SERVICES ON OUR BOND PROGRAMS AS WELL AS OTHER DEBT ISSUANCES THAT WE'VE HAD SO STICKING WITH TAX RATES, AND THE PROPERTY TAX, WE WANTED TO DO JUST I GUESS A QUICK PRIMER ON TAX RATES. AND TYPICALLY EACH YEAR WE TALK A LOT ABOUT TAX RATES AS WE GET CLOSER TO THE PROPOSED AND APPROVED BUDGE SOCIETY WE WANT TO WALK THROUGH THE TAX RATES THAT ARE DEFINED BY STATE LAW

AND HOW TO THEY ARE DEFINED TO BE CALCULATED. THE FIRST ONE WE TYPICALLY TALK ABOUT EACH OTHER IS THE EFFECTIVE TAX RATE. THAT IS A TAX RATE THAT GENERATES THE SAME AMOUNT OF REVENUE ON PRIOR YEAR PROPERTIES AS WE HAD IN THE PRIOR YEAR. AND WHERE YOU GET ADDITIONAL REVENUE FROM AT THE EFFECTIVE TAX RATE IS FOR NEW PROPERTY ON THE ROLLS, BASICALLY NEW STOCK THAT WASN'T ON THE ROLL THE YEAR BEFORE. AND THEN TYPICALLY IN MOST YEARS, WHEN WE SEE INCREASES IN PROPERTY VALUES OR ASSESSED VALUATION WHAT YOU TYPICALLY SEE IS THE TAX RATE, THERE IS A CALCULATED AFFECT OF TAX RATE SLOWS DOWN. AS WE'VE TALKED ABOUT, CERTAINLY LAST YEAR, THIS BASICALLY STATE DIRECTED CALCULATION DOESN'T NECESSARILY ALLOW CITIES IN GENERAL, ALLOW THEM TO KEEP UP WITH THE GROWTH OF COSTS OF JUST PROVIDING BASIC SERVICES OR THE SAME SERVICES. THE SECOND TAX RATE THAT WE TALK ABOUT IS THE NOMINAL TAX RATE AND REALLY WHAT THAT IS IS KEEPING THE TAX RATE FLAT YEAR-TO-YEAR. FINALLY, THERE IS THE ROLL-BACK TAX RATE AND HOW THIS IS ARRIVED AT IS TAKING TWO PIECES OF EVERY TAX RATE, THE ONM PIECE AND GO 108%, 8% ABOVE THAT, PLUS ADD IN THE DEG SERVICE TAX RATE AND THAT DEBTS TO YOU A ROLL-BACK TAX RATE AND WE WILL WALK YOU THROUGH THAT IN A LITTLE BIT.

COUNCIL MEMBER, LEFFINGWELL.

WILL YOU GIVES YOU A DEFINITION OF NEW PROPERTY?

SURE THAT PROPERTY IS THAT PROPERTY AGAIN IF THERE IS A VACANT PIECE OF LAND THAT HAS BEEN RECENTLY DEVELOPED, WHETHER WITH A SINGLE FAMILY HOUSE OR A SUBDIVISION OR NEW CONDOS FOR THAT MATTER, AND THAT WAS NOT TAXED IN THE PRIOR YEAR, IT WOULD BE THEN PUT ON THE ROLLS AND IT WOULD -- ON THE ROLES AND IT WOULD NOT BE SUBJECT TO THAT 10S WITH CAP YEAR IN AND YEAR OUT THAT MOST HOMESTEADED PROPERTIES ARE.

AND ANNEXATION.

ANNEXATION IS PART OF THAT PROCESS.

WHAT ABOUT REDEVELOPMENT?

AGAIN, REDEVELOPMENT OF -- REDEVELOPMENT OF PROPERTIES THAT WERE, ARE SIGNIFICANTLY CHANGED, FOR EXAMPLE, I THINK EVEN IF DO YOU AN ADDITION TO YOUR HOUSE, THAT PIECE OF THE HOUSE WOULD BE CONSIDERED AS NEW VALUE, AND WOULDN'T BE SUBJECT TO THAT. SO ONE OF THE WAYS THE APPRAISAL DISTRICT TRACKS THAT IS THEY WORK IN CONCERT WITH THE CITY TO GET PERMIT DATA AND SEE WHAT SQUARE FOOTAGE IS BEING ADDED AND THEY TAKE THAT IN AND ASSESS THAT AND RUN THAT THROUGH THEIR MODELS TO SEE WHAT POPS OUT AS NEW PROPERTY.

SO THE DELTA, SO SMALL SINGLE STORY BUILDINGS SOMEWHERE, UNUTILIZED BUILDING

DOWNTOWN GETS DEMOLISHED PERHAPS AND A YEAR OR TWO LATER A HIGH RISE, SOMETHING GOES INTO PLACE THAT DELTA WOULD BE CONSIDERED THE NEW PROPERTY.

THAT'S CORRECT, IT IS THE BASE YEAR AND THEN WHAT THE NEW -- IT IS THE DELTA BETWEEN THOSE TWO NUMBERS, EXACTLY, MAYOR. SO TO CONTINUE ON, AGAIN, STILL DISCUSSING PROPERTY TAXES AS WE PUT THEM IN CONTEXT BEFORE WE GET TO OUR REVENUE SCENARIOS, AND JUST AS A REMINDER, YOU'VE SEEN THIS CHART EACH YEAR TOO, AUSTIN IS ONE OF FIVE TAXING JURISDICTIONS IN THE REGION. THE COMBINED OVERLAPPING TAX RATE IS \$2.15, OF WHICH AUSTIN COMES UP JUST LESS THAN 19% OF THAT. WHEN WE CONVERT THAT INTO LOOKING AT THE TAX BILL ON A \$175,000 HOME, AND AGAIN, THE \$175,000 HOME IS VERY, IT IS ACTUALLY RIGHT AT THE MEDIAN FOR THE CITY OF AUSTIN, OUR SHARE OF THE \$3,400 TAX BILL IS JUST ABOUT 20%, AND THE DIFFERENCE BETWEEN THE PERCENTAGES OF COURSE DUE TO THE HOMESTEAD EXEMPTIONS THAT THE SCHOOL DISTRICT AND COUNTY HAVE ON THEIR TAX BILL. MOVING ON TO THIS SLIDE, 12, THIS IS TYPICALLY A SLIDE THAT WE, I MEAN, A PICTURE THAT WE HAVE IN OUR BUDGET DOCUMENT, IT'S KIND OF BURIED IN THE BUDGET DOCUMENT BUT WE THOUGHT IT WOULD BE KIND OF EDUCATIONAL TO SHOW AT THIS TIME OF YEAR AND REALLY WHAT YOU ARE LOOKING AT HERE IS FIVE YEARS WORTH OF GROWTH AND ASSESSED VALUATION, AND THE PROPERTY TAX RATE THAT HAS BEEN ADOPTED. AND AS YOU CAN SEE, AS THE ASSESSED VALUATION HAS INCREASED THE CITY COUNCIL HAS REDUCED THE TAX RATE. IN THE PAST FEW YEARS, THE TAX RATES WERE LOWER THAN THE PRIOR YEARS BUT THEY WERE ABOVE THE AFFECTED TAX RATE.

I WANT TO SAY, MAYBE I DON'T REMEMBER PRO TEM PROBABLY HELPS US REMEMBER THIS BUT BACK 10, 12 YEARS AGO WE HAD 60-CENT RATES.

WHEN I CAME IN 1990 AND '91 AND '92 IT WAS IN THE 60-CENT RANGE. THIS GRAPH IS REALLY IMPORTANT. THE STATE LAWS REALLY, I THINK, EXPECTED CITIES AS THEIR APPRAISED VALUES WENT UP FOR THEM TO DROP THEIR TAX RATES. WE DID EXACTLY WHAT CITIES EXPECTED US TO DO, AND NOW TODAY WE FIND OURSELVES IN A VERY PRECARIOUS POSITION AT THE STATE BECAUSE A LOT OF CITIES DIDN'T DO THAT SO WE'RE SITTING HERE NOW WITH THE 40-CENT TAX RATE, FT. WORTH HAS SOMETHING LIKE 80-SOMETHING CENTS.

82.

DALLAS AND HOUSTON ARE IN THE HIGH, LOW 60s OR SOMETHING LIKE THAT. SO WHEN THESE PROPOSALS COME BEFORE THE STATE LEGISLATURE OF CAPPING REVENUE, AT LET'S SAY AN OVERALL 3%, NOT COUNTING NEW -- INCLUDING NEW REVENUE THAT WOULD KILL US. IT WOULD KILL MOST CITIES BUT IT WOULD REALLY KILL AUSTIN BECAUSE WE'RE SITTING HERE AT 40-CENTS. I THINK I DID A DISSERVICE TO THIS COMMUNITY IN LETTING THAT TAX RATE GET THAT LOW, I'M SAYING WE HAVE TOO LOW A TAX RATE TO SUPPORT A CITY OUR SIZE. SO EVEN THE CAP ON THE, ONE OF THE OTHER THINGS THEY CONSIDER IS

A CHANGE IN THE ROLL-BACK RATE, DROPPING IT FROM 8% TO 5% THAT WOULD AGAIN, REALLY HURT US BECAUSE LAST YEAR BUT GOING ALL THE WAY UP TO THE ROLL-BACK RATE I THINK WE WERE ABLE TO GET, WHAT, \$6 MILLION MORE. CAN YOU IMAGINE TRYING TO BE IN AN EMERGENCY SITUATION TRYING TO RAISE MONEY IN THIS CITY. WE'VE GOT A \$550 MILLION-PLUS GENERAL FUND AND ONLY ABLE TO RAISE LIKE 10 MILLION OR SOMETHING OF THAT ORDER. I THINK IT IS A VERY SCARY SITUATION TO BE IN. SO MY ADVICE TO YOU AS I LEAVE IS AS LONG AS WE ARE THIS LOW, TRY TO RAISE YOUR PROPERTY TAX TO THAT ROLL-BACK RATE EVERY YEAR, YOU WILL PROBABLY BE STILL BELOW THE TAX RATE YOU WERE THE YEAR BEFORE AS LONG AS APPRAISALS ARE RISING. I THINK THAT IS THE ONLY THING WE CAN DO LOCAL THREE HELP PROTECT OURSELVES AND WORK REALLY HARD TO MAKE SURE THEY DON'T KILL US.

MAYOR?

COUNCIL MEMBER MARTINEZ.

I DON'T KNOW IF IT IS A STATUTORY REQUIREMENT WE VOTE ON THE TAX RATE EVERY YEAR BUT COULD WE HAVE A CONVERSATION ABOUT THE POLICY THAT SPEAKS TO THAT ISSUE, IT IS AN ASSUMPTION, A FOREGONE CONCLUSION THAT ON AN ANNUAL BASIS THAT IS A STARTING POINT, THAT IS WHERE WE BEGIN THE CONVERSATION, OPPOSED TO TRYING TO GET TO THAT POINT.

WE CERTAINLY COULD.

I THINK ALSO OUR HEALTH DISTRICT IS IN THE VERY SAME SITUATION. I WOULD GIVE THEM THE SAME ADVICE.

YEAH.

COUNCIL MEMBER KIM.

I HAVE A QUESTION ABOUT THE SENIOR HOMESTEAD EXEMPTION THAT THE CITY OF AUSTIN GRANTS. HOW DO WE CALCULATE THAT.

IT IS FLAT RATE AT \$57,000.

WHEN WAS THAT ENACTED?

I THINK IT HAS BEEN SINCE THE EARLY 90s. I WILL HAVE TO GET THE EXACT DATE BUT IT HAS BEEN CONSTANT A LONG TIME, PROBABLY AT LEAST 20 YEARS.

SO WE HAVEN'T RAISED IT SINCE WE ENACTED THAT.

WE HAVEN'T RAISED IT, NO.

IF I COULD COMMENT A LITTLE BIT ABOUT HOMESTEAD EXEMPTIONING? GENERAL. THE CITY DOESN'T HAVE A GENERAL HOMESTEAD EXEMPTION AND WE DON'T FOR A SPECIFIC REASON. MOST OF THOSE EXEMPTIONS WENT INTO AFFECT PRIOR TO 1987 WHEN IT CAME INTO EXISTENCE SO WHAT HAPPENED IN THOSE TOWN, THE COUNTIES AND OTHER FOLKS THAT HAD THOSE PUT IN, THEY ADDED THE EXEMPTION AND THEN RAISED THEIR TAX RATE IN ORDER TO MAKE UP FOR IT AND SHIFTED IT OVER TO THE COMMERCIAL AND BUSINESS SECTOR. WE DID NOT DO THAT FOR SOME REASON AT THAT TIME, AND SO NOW WE ARE IN A POSITION WHERE FINANCIALLY WE CAN'T DO IT BECAUSE WE RUN INTO, WE CAN'T RAISE OUR TAX RATE ENOUGH TO MAKE UP FOR IT BECAUSE WE RUN INTO THE ROLL-BACK RATES AND EFFECTIVE RATES AND ALL OF THESE RATES. SO OUR PHILOSOPHY HAS TO BE WE KEEP OUR PROPERTY TAX IN GENERAL AS LOW AS POSSIBLE SO EVERY SECTOR BENEFITS. BECAUSE IN EFFECT, WE REALLY CAN'T DO ANYTHING ELSE.

AND TO COMPLEMENT OR COMPLICATE THAT IS EXTENT FAR AS AWAY HAS THE LARGEST PERCENTAGE OF CITIZENS WHO RENT IN THE STATE SO THE HOMESTEAD EXEMPTION IS ONLY FOR THOSE WHO OWN THEIR HOME. IF WE WERE TO ENACT AN EXEMPTION, IT WOULD SHIFT THE BURDEN NOT ONLY ON TO THE COMMERCIAL PROPERTY OWNERS BUT DISPROPORTIONATELY ON THOSE THAT RENT AND THOSE ARE OUR WORKING POOR. COUNCIL MEMBER LEFFINGWELL.

SO THE HOMESTEAD EXEMPTION FOR SEEN YEARS -- FOR SENIORS IS THE SAME.

THAT'S CORRECT.

AND THAT WOULD BE IN ACCORDANCE WITH A FORMULA SET BY STATE LAW.

THAT IS CORRECT AS WELL.

YOU COULD RECAP THAT IN 10 SECONDS?

THE RECAP I THINK THE FIRST YEAR DO YOU IT, YOU SEE A SIGNIFICANT LOSS.

IT HAS TO BE A PERCENTAGE RIGHT?

IT HAS TO BE A PERCENTAGE VERSES --

20?

20, RIGHT, 20%, CREDIT CARD. AND I THINK THERE IS A MINIMUM OF 5,000 UP TO THE CAP OF 20%.

FURTHER QUESTIONS?

GREG.

SO AS WE, IN LOOKING AT OUR REVENUE WE CERTAINLY STARTED LOOKING AT THE SAME ISSUE ABOUT OUR PROPERTY TAX MIX AND SALES TAX MIX. WE TRIED TO LOOK AT THESE REVENUE STREAMS AND IS A WHAT WE DID IS LOOK AT OTHER TEXAS CITIES, WHAT WE ALWAYS TALK ABOUT AS PEER CITIES SO WHAT THIS PICTURE SHOWS UP HERE IS THIS IS A SHARE OF THE GENERAL FUND REVENUE FOR EACH OF THESE CITIES, THE PROMPT TAX VERSES -- THE PROPERTY TAX VERSES THE SALES TAX. I WANT TO SAY, WHAT OUR GENERAL FUND IS COMPRISED OF, OUR SERVICES, DO NOT EXACTLY ALIGN WITH ALL THE OTHER GENERAL FUNDS BUT IT GIVE AS CONTEXT AND IF I CAN PICTURE WHERE WE STAND RELATIVE TO OUR PEERS. WE ARE SECOND LOWEST ON THE PROPERTY TAX AND ON THE SALES TAX SIDE IT IS 28%, SOME OF ROUNDING IN THERE, BUT WE ARE THE HIGHEST OF OUR TEXAS CITIES IN TERMS OF OUR REVENUE SHARE, WHERE OUR REVENUE SOURCE IS COMING FROM, AGAIN, SALES TAX THAT JON TALKED ABOUT IS CERTAINLY LESSES LESS CONSISTENT REVENUE OR REVENUE STREAM. WE CONTINUE TO DIG OUT -- DIG AT OUR SALES TAX THIS YEAR AND WALK YOU THROUGH WITH ARE WE ARE TODAY AND JON DID SHOW YOU CHARTS OF WHERE WE ARE TODAY. WE DEVELOPED THIS YEAR'S PROJECTION LAST SUMMER WHEN WE WERE PUTTING THE PROPOSED BUDGET TOGETHER IN THE FINAL BUDGET AND WE PUT 7.6% GROWTH RATE FOR THE BUDGET. AND AT THAT POINT, ALL INDICATIONS SEEMED LIKE AUSTIN WAS CONTINUING TO HAVE ROBUST GROWTH AND WE EXPECTED TO SEE OUR SALES TAX INCREASE. THE 7.6% APPEARED REASONABLE AT THAT TIME. WE HAD BEEN LOOKING AT OUR FIVE-YEAR AVERAGE, CLOSER TO 8.5% SO THAT 7.6% WAS LOWER, IT WAS LOWER SIGNIFICANTLY THAN THE PRIOR YEAR THAT WAS IN THE 12% RANGE AS WELL AS THE CURRENT YEAR ESTIMATE WE WERE LOOKING@THAT TIME OF 9% SO WE THOUGHT IT WAS, WE CERTAINLY THOUGHT IT WAS A GOOD LOOK AT SALES TAX GROWTH. BUT AS WE PROJECTED THAT, I THINK WE ALSO KNEW AS WE TALKED ABOUT IN SOME PRESENTATIONING WE WERE DEALING WITH A LESS RELIABILITY AND LESS PREDICTABLE REVENUE SOURCE SO AS WE'VE BEEN COMMUNICATING TO YOU SINCE THE BEGINNING OF THIS YEAR AND AS JON REVIEWED ON THIS SLIDE IS OUR SALES TAX GROWTH, WHILE IT IS GROWING, IT CERTAINLY ISN'T GROWING AS FAST AS WE HAD PROJECTED. WE ARE GROWING 3.8, COMPARED TO LAST YEAR. WE ARE SEEING MONTHLIERY ERRATIC GROWTH. AND IT WAS A SMALL NEGATIVE SO WE ARE KIND OF ALL OVER THE PLACE AND IT FEELS LIKE WE ARE IN SHAKE-OUT PERIOD. WHAT JON TALKED ABOUT, CERTAINLY IT APPEARS CONSUMER SPENDING IS BEING SQUEEZED BY HIGHER FUEL COSTS AND COMMODITY COSTS, GOING TO THE SUPER MARKET, SO I GUESS THERE ARE MORE DISPOSABLE INCOME FOR OTHER PURCHASES ARE BEING SQUEEZED OUT WHEN WE LOOK AT THAT. WE JUST WANTED TO, HERE ON SLIDE 15, WE REALLY WANTED TO PROVIDE YOU BACKGROUND INFORMATION FOR YOU TO HAVE AND THIS IS A 20-YEAR HISTORY OF OUR SALES TAX GROWTH RATES. AS YOU CAN SEE, WE'VE HAD SOME HIGH GROWTH RATES. BACK IN THE '90s WE WERE UP 15.9% AND WE'VE WILL LOW GROWTH RATES IN THIS DECADE. SINCE EARLY 2000 IT HAS BEEN LESS HIGH GROWTH RATE AND

MORE MODERATE OVERALL, ALTHOUGH WE DID HAVE HIGH GROWTH RATES IN 2006 AND FINALLY IN 2007. AND THEN ON PAGE 16, HERE SUSPECT CHART THAT MAYOR PRO PRO TEM WAS REFERRING TO, THIS IS NORMALLY BUREAU IN THE BUDGET DOCUMENT AND THIS IS OUR SHARE, AUSTIN'S SHARE OF THE OVERALL REGIONAL SALES TAX PIE. AND MAYOR PRO TEM IS CORRECT, BACK IN 1990 WE HAD A VERY LARGE SHARE, CLOSE TO 90%, AND NOW WE ARE AT 50%. WHILE OUR SHARES THAT GONE DOWN, THERE IS NO DOUBT THE OVERALL PIE HAS INCREASED DRAMATICALLY IN CENTRAL TEXAS AND FOR A LOTS OF THE REASONS JON TALKED ABOUT IN THE PAST 10 YEARS WITH THE IN MIGRATION IN THE REGION AND THE CITY. IN 2007 THE TOTAL SALES TAX REVENUE IN OUR AREA WAS 193 MILLION. LAST YEAR IT WAS 303 MILLION SO IT SHOWS YOU THE DRAMATIC INCREASE IN EVEN SEVEN YEARS. INTERESTINGLY ENOUGH, LOOKING AT THIS, WE ACTUALLY HAD SEEN A STABILIZATION OF OUR SHARE, WE'RE ABOUT ROUGHLY AROUND 50% AND WE'VE BEEN THERE FOR THE LAST, WE'VE BEEN THERE FOR THE LAST COUPLE YEARS AND A COUPLE THINGS I GUESS WE COULD POINT TO IS CERTAINLY MORE RETAIL OPTIONS IN THE DOWNTOWN AREA AS WELL AS ELSE WHERE IN THE CITY. I THINK IN TALKING TO JON WE TALKED ABOUT OVER THE LAST COUPLE WEEKS IS THE IDEA THAT I THINK THE TOURISM IMPACT CERTAINLY THE DOWNTOWN AREA FROM PEOPLE COMING IN FOR CERTAIN EVENTS IS HELPING NEWS THIS REGARD BUT KEEPING OUR SHARE STEADY OF THIS. AND THIS IS SOMETHING WE CONTINUE TO TRACK AND WILL ALWAYS TRACK AS WE MOVE FORWARD THROUGHOUT THE YEAR.

IT SEEMS TO ME THIS IS PERFECTLY PREDICTABLE THAT AS IN FACT, I WOULD SUGGEST WE WERE AT EQUILIBRIUM RIGHT NOW BECAUSE THE CITY OF AUSTIN IS RIGHT AT 50% OF THE POPULATION OF OR MSA, 750,000 COMPARED TO 157 MILLION, AND OUR SUBURBAN NEIGHBORS ARE DOING EXACTLY WHAT THEY SHOULD BE DOING, CONSTRUCTING COMMERCIAL USES AND RETAIL USES NEAR THEIR ROOFTOPS, SO I SUGGEST THAT WAS PERFECTLY PREDICTABLE BUT WE CAN BE VERY JUDICIOUS ABOUT HOW WE COME PETE BECAUSE WE WILL HAVE DIFFERENT PRODUCT PRODUCTS AND OPPORTUNITIES THAN WHAT A TYPICAL SUBURBAN COMMUNITY HAS.

THAT IS COUNCIL MEMBER McCracken.

THERE ARE FEW THINGS IN HERE, ONE IS THE OUTLET MALLS, EITHER OPENED OR REALLY RAMPED UP. SAN MARKUS AND ROUND ROCK, I THINK IN THE EARLY PART OF THIS DECADE. DELL COMPUTER, SALES TAX GOES NO ROUND ROCK BUDGET, DOESN'T IT. IN FACT, WHEN WE LOOK AT OUR RELIANCE ON SALES TAX, RELATIVE TO OTHER TEXAS CITIES, I THINK THIS REGION AND R AND A WHOLE HAS A STRONGER RELIANCE ON BUDGETS IN OTHER METRO AREAS, DO YOU HAVE A ROUGH ESTIMATE OF WHAT PERCENTAGE OF THE OTHER TWO MAJOR MSA COMMUNITY, THEIR SALES TAXES AND THEIR BUDGET?

WE DON'T BUT WE CAN GET THAT FOR YOU. WE'LL DO THAT.

I RECALL THAT JUST IN AUSTIN, WE RELY HEAVIER ON SALES TAX AND ROUND ROCK DOES

AS WELL AND SAN MARKUS LIKELY DOES AS WELL.

RECENTLY ROUND ROCK WAS AS HIGH AS TWO-THIRDS WITH SALES TAX SO WHEN DELL HAD THEIR TOUGH YEAR IN 2001, I REMEMBER THEM HAVING TO RAISE THE PROPERTY TAX RATE SIGNIFICANTLY BECAUSE THEY WERE TWO-THIRDS DEPENDENT ON SALES TAX.

WE MIGHT HELP REPLICATE THAT SLIDE FOR THE MAJOR TEXAS CITIES AND MORE THE REGION AND WE WILL GET THAT TOGETHER FOR YOU.

CONVERSE ON THAT IF LUGERVILLE I HAVE HAS NO SALES TAX TO SPEAK OF IS TRYING TO RECTIFY THAT HAS TWICE THE AUSTIN TAX RATE, THAT IS A MAJOR THING THE CITY GOVERNMENT IS FOCUSED ON IF S IF YOU DON'T HAVE STRONG SALES TAX BASE THROUGH PROPERTY TAXES AND OUR NEIGHBORING COMMUNITIES THAT DON'T HAVE STRONG SALES TAX.

OKAY. SO NOW THAT WE'VE WALKED THROUGH BASICALLY TWO MAJOR COMPONENTS OF OUR GENERAL FUND REVENUE AND THE ONES THAT WE WILL ACTUALLY LOOK AT, WE WILL LOOK NATIONAL DEPTH THE SCENARIOS WE PUT TOGETHER. WE HAVE DONE SOMETHING DIFFERENT THIS YEAR, WE LOOKED AT REVENUE SCENARIOS INSTEAD OF ONE PROJECTION. WE FELT THIS CHANGE WAS IMPORTANT BECAUSE WE KNOW THERE ARE DECISIONS ABOUT TAX RATES AND WE KNOW THAT SALES TAX GROWTH CAN BE VOLATILE AND GIVEN THE FACT THAT WE'RE HALFWAY THROUGH THE YEAR SO WE HAVE A BETTER SENSE OF WHERE THIS YEAR WILL END UP, THAN WE DID A FEW MONTHS AGO. BUT CERTAINLY AS WE MOVE FORWARD WE NEED TO MONITOR OUR MONTHLY SALES TAX PAYMENTS AND THAT WILL HELP US PROJECT OUT THE NEXT YEAR'S SALES TAX. GIVEN THAT WE THOUGHT LOOKING AT THOSE SCENARIOS IT IS A DIFFERENT APPROACH AND ONE THAT WILL ADD MORE VALUE TO THE BUDGET PROCESS AND GIVE MORE INPUT ON THE VARIOUS ASSUMPTIONS WE PUT OUT AND ALL OF US WHO PRAISE THE OUTCOMES OF THOSE ASSUMPTIONS AND WHAT IT LOOKS LIKE ON OUR GENERAL FUND. FOR THE SCENARIO, AGAIN, WE PUT THREE SCENARIOS TOGETHER, WE HAVE DEVELOPED SOME COMMON ASSUMPTION IN EACH OF THE SCENARIOS. AND SO STARTING FIRST WITH PROPERTY TAX, OBVIOUSLY ONE OF THE BIGGEST DRIVER IN OUR FINAL PROPERTY TAX REVENUES WERE OUR ASSESSES VALUATION IS SO WE WILL HAVE ASSESSED VALUATION ASSESSMENTS AND ESTIMATES AND THEY ARE COMMON THROUGH ALL THE SCENARIOS. NOW AS A QUICK PRIMER, OUR CURRENT YEAR VALUATION FOR THE ENTIRE CITY IS \$68.6 MILLION. FOR NEXT YEAR, 2009, WE ARE PROJECTING A GROWTH RATE OF ABOUT 8.5%, TAKINGS -- 8.5%, TAKING US UP TO 74 BILLION, OF THAT, 3 BILLION IS ON NEW PROPERTY THAT WILL BE ADDED TO THE TAX ROLLS. IN THE OUT YEARS WE PROJECTED 5% CONSTANT IN EACH OF THOSE YEARS AND THAT IS BASED ON SOME PRELIMINARY DISCUSSION BUT MORE IMPORTANTLY LOOKING AT A LONG-TERM AVERAGE. SOME YEARS WE MIGHT BE HIGHER THAN 5% AND SOME YEARS LOWER THAN 5%. IN THE PAST THEY'VE SHOWN A LOWER OUT YEAR, WE THINK WE NEED TO IN LOOKING AT THIS AND BUMPING IT UP TO 5% WE THINK THAT IS A MORE REALISTIC LOOK FORWARD AND SOMETHING WE AAS

WE LOOK FORWARD.

WHAT IS LAST YEAR' GROWTH RATE?

13.1%.

IN ASSESSED VALUE.

YES.

AND SO MAYOR THAT ACTUALLY BRINGS UP --

THAT INCLUDES THE PROPERTY.

IT INCLUDED THE ENTIRE ROLE, EXACTLY. NEW PROMPT, PROPERTY, MAYOR, CAME IN 227 BILLION LAST YEAR. THAT GIVES ME AN OPPORTUNITY TO TALK ABOUT NEXT YEAR'S GROWTH RATE, WHAT WE ARE SHOWING CURRENTLY PROJECTED FOR THAT AND IT IS BASED ON CONVERSATION WITH THE APPRAISAL DISTRICT. IT IS NOT ABOUT WHERE THE ROLE IS NOW BUT WHERE THE ROLE WILL BE CERTIFIED AT THE END OF WHICH IS STILL A FEW MONTHS AWAY. IN THE PAST WEEK THERE WAS MEDIA COVERAGE ABOUT THE APPRAISAL ROLES SEND TO HOMEOWNERS SHOWED POTENTIAL GROWTH RATES OR HIGHER GROWTH RATES HIGHER THAN THE 8.5% BUT I WANTED TO SAY AS WE PUT THIS NUMBER TOGETHER IT IS HIS PROJECTION 6 WHERE THE ROLE WILL FINALLY END UP AND IT IS BASED ON ALL PROPERTY VALUES, COMMERCIAL AND OTHERS AS WELL, AND WHERE IT WILL END UP AFTER THE APPRAISAL PROCESS IS DONE AND AFTER THE PROTEST PERIOD IS COMPLETE. WHICH IS JUST BEGINNING. THERE IS A NEW APPRAISAL IN THE DISTRICT AND WE'VE HAD A CHANCE TO MEET HIM A FEW TIMES. I THINK WE HAVE A REALLY GOOD WORKING RELATIONSHIP WITH HIM AND WE'RE IN, MORE SO THAN EVER, WE ARE IN A LOT OF CONTACT WITH HIM AND WILL BE AS WE CONTINUE THROUGH THIS PROCESS TO SEE IF THESE NUMBERS WILL CHANGE AT ALL.

DO YOU HAVE A FEEL FOR WHETHER, I MEAN, I GUESS, I ALWAYS HAD THE IMPRESSION THAT ART TENDED TO BE A LITTLE LOW. DO YOU HAVE A FEEL FOR --

I THINK WE'RE STILL IN A KIND OF A, WE'RE STILL IN A COURTING STAGE, TRYING TO UNDERSTAND EACH OTHER AND SEE WHERE WE ARE, BUT HE HAS BEEN VERY FORTH COMING WITH INFORMATION, HE AND HIS STAFF, SO WE'VE HAD SOME MEETINGS WITH HIM AND I THINK WE CERTAINLY ARE GOING TO BUILD THAT OUT. ART HAD BEEN THERE FOR 20 YEAR WEDNESDAY CERTAINLY HAD A RELATIONSHIP WITH THEM.

THE LAST ONE SHOWS WHAT THE REVENUE INCREASE WILL BE, NOT THAT NUMBER BUT A PORTION OF THAT IF THE TAX RATE STAYS EFFECTIVE.

THAT IS RIGHT, THAT IS WHERE YOU GET YOUR ADDITIONAL REVENUES.

MAYOR, I THINK THAT, IF I COULD RESPOND TO SHERYL A LITTLE BIT, I THINK HE WAS VERY CONSERVATIVE IN THE LAST FEW YEARS BECAUSE AS KIND OF THE EARLY MID '90s, YOU KNOW, '93, '94, IT CAME IN LOWER THAN WHAT WE HAD PROJECTED SO WE WERE SCRAMBLING AROUND THE LAST DAY BEFORE THE BUDGET CAME OUT, THE MANAGER'S BUDGET, TRYING TO FIGURE OUT WHERE TO PUT A ANOTHER 1.2 MILLION WE DIDN'T HAVE SO I THINK WE HAD A COUPLE YEARS LIKE THAT AND HE WAS VERY, VERY CONSERVATIVE TO MAKE SURE THAT NOT JUST THE CITY BUT ALL OF THE JURISDICTIONS AROUND HERE DIDN'T END NUMBER THAT SITUATION AT THE VERY -- END UP IN THAT SITUATION IN THE VERY LAST MINUTE.

YOU WERE ABOUT TO MOVE ON GREG BUT BEFORE DO YOU THAT COULD I MAKE A POINT TOUCHING ON THE TRANSFER RATE.

SURE, ABSOLUTELY. THE SECOND COMMON ASSUMPTION WAS WE MAINTAIN THE TRANSFER RATES WE HAVE HAD IN THE CITY A LONG TIME AND THESE ARE TRANSFER RATES FROM OUR UTILITIES, AGAIN, WHICH ARE THE CITIZENS DIVIDENDS ON THESE MUNICIPALLY-OWNED TILL UTILITIES, SO WHILE THESE RATES STAY CONSTANT, THE REVENUE INCREASES AS WE GET THE RELATIVE SHARE OF THAT. AND THEN FINALLY, THE THIRD ASSUMPTION IS WE LOOK AT ALL OTHER REVENUE THAT 20% PIECE OF THE PIE, OUR CHARGES, OUR FINE, OUR DEVELOPMENT FEES. RIGHT NOW WE HAVE A MODERATE INCREASE APPROXIMATELY BETWEEN TWO AND FOUR PERCENT OVER ALL FOR THAT AND A LOT OF THESE FEES WE NEED TO MONITOR THE CURRENT YEAR AND THAT ALLOWS BETTER PROJECTIONS AND THAT IS SOMETHING WE WILL WORK ON BETWEEN NOW AND THE TIME THE CITY MANAGER PUTS HIS BUDGET TOGETHER AND IF WE CAN GET ANY FLUCTUATIONS UP AND DOWN, WE WILL ASSESS THOSE MOVING FORWARD.

IF THE REVENUES DECLINE.

THAT'S CORRECT.

MAYOR.

THERE IS INFORMATION I DON'T SEE IN HERE WHICH I THINK WE NEED, AND THAT IS THE ACTUAL DOLLAR COLLECTIONS ON SALES TAX. I'M SEEING PERCENTAGE GROWTH BUT I DON'T SEE THE NUMBER. AND THAT WOULD BE HELPFUL FOR US TO KNOW.

COUNCIL MEMBERS, I HAVE SOME OF THOSE THAT WE CAN WALK THROUGH.

AND THAT WOULD BE HELPFUL. ALSO, I THINK ALONG THE LINES OF ALSO WHAT ARE WE RECEIVING EACH YEAR IN REAL DOLLAR TERMS, REPLICATES THE PROPERTY TAX CHARTS OF ACTUALLY DOLLAR REFLECTIONS ON THINGS LIKE PERMITS ON UTILITY TRANSFERS,

JUST GIVE IT SOME REAL DOLLAR UNDERSTANDING. THE PERCENTAGES DEAL IS HELPFUL BUT WE ALSO NEED TO KNOW THE DOLLAR AMOUNTS.

WE WILL GET THAT ALL TOGETHER FOR YOU, A SUMMARY INFORMATION FOR YOU THAT SHOWS YOU ALL THE DOLLAR IMPACTS AS WELL, THE PERCENTAGES. SO MOVING ON, WE WILL TALK ABOUT THE REVENUE SCENARIO WE PUT TOGETHER. PROPERTY TAX RATE AND OUR SALES TAX GROWTH RATE. SO HERE, WHAT HAVE YOU HERE IS REALLY A CHART DEPICTING EACH OF THE UNDERLYING ASSUMPTIONS. SCENARIO ONE IS BASED ON AN EFFECTIVE TAX RATE EACH YEAR, SO THAT TAKES US ON THE PROPERTY TAX RATE, FOR EXAMPLE, RIGHT NOW OUR BUDGET TAX REVENUE IS \$186 MILLION THAT WOULD TAKE US UP TO \$198 MILLION FOR 2009, AND THEN THE EFFECTIVE TAX RATE STAYS, THE EFFECTIVE TAX RATE WOULD BE FOR ALL THOSE YEARS. IT IS 2% GROWTH THIS YEAR, RIGHT NOW IT IS 3.8% BUT WE WANTED TO PUT SOME BANDS AROUND IT THIS YEAR. 3% NEXT YEAR, AND THAT WOULD TAKE US TO \$161 MILLION IN SALES TAX REVENUES. OUR BUDGETED SALES TAX REVENUE THIS YEAR IS 164 MILLION, HOWEVER BASED ON ABOUT 3.8%. AND THEN IN THE OUT YEAR, OUR SALES TAX, FY 10 THROUGH FY 13 SHOWS INCREASES OF 5%. THIS IS IN LINE WITH WHAT JON TALKED ABOUT WITH A LONG-TERM AVERAGE OF 4 AND 6% AND THE LAST 10 YEAR 4.9% SO THIS 5% IN THE OUT YEARS IS IN LINE WITH OUR LONGER TERM TREND. SCENARIO TWO, WHAT WE'VE DONE IS LOOKED AT THE NOMINAL TAX RATE IN EACH YEAR WHAT THAT WOULD DO IS GENERATE FOR NEXT YEAR \$209 MILLION IN PROPERTY TAX REVENUE AND THEN AGAIN THE NOMINAL TAX RATE IN EACH OF THE FOLLOWING YEARS. THE SALES TAX GROWTH, THE ESTIMATE ON THIS SCENARIO IS BASED ON 3% GROWTH THIS YEAR AND 3.5% GROWTH NEXT YEAR AND THAT WOULD GIVE US \$163 MILLION IN SALES TAX REVENUE IN FY '09 AND 5% IN THE OUT YEARS. FINALLY, SCENARIO THREE --

ON YOUR DIFFERENCES IN YOUR NOMINAL AND ROLL-BACK RATES, THEY ARE VERY, VERY CLOSE. IN OTHER WORDS THE CURRENT. AND DO YOU THINK THAT RELATIONSHIP WILL STAY STEADY EVEN AS YOU GET MORE REFINED NUMBERS, IS IT POSSIBLE? IT WILL CREEP EVEN CLOSER?

IT MIGHT SHIFT. AND THE NOMINAL RATE IS HIGHER THAN A ROLL-BACK RATE.

THAT IS POSSIBLE THIS YEAR. IF YOU LOOK AT IT, THE DIFFERENCE IN SCENARIOS, FIRST OF ALL THE DIFFERENCE IN CONSIDERING SCENARIO TWO AND THREE MARGINAL ABOUT \$3 MILLION IN TOTAL REVENUE DIFFERENCE. REALLY THE ROLL-BACK TAX RATE IS .05 CENTSS HIGHER. CERTAINLY AS WE TALK TO THE APPRAISAL DISTRICT AND IF THE AV GROWTH CHANGES SLIGHTLY WE WILL SEE WHAT WE'VE SEEN IN THE LAST COUPLE YEARS WHICH IS THE ROLL-BACK TAX RATE FALL BELOW AND SO IN EFFECT THE CITY'S TAX RATE WOULD BE DECLINING AGAIN. BUT BASED ON THE PROJECTIONS WE HAVE NOW IS MARGINALLY HIGHER. IT IS A SMIDGE. ON THE SALES TAX -- COUNCIL MEMBER LEFFINGWELL.

WHAT IS THE RATIONALE FOR HAVING A HIGHER SALES TAX GROWTH RATE UNDER THE

DIFFERENT SCENARIOS.

COUNCIL MEMBER, AT THIS POINT, YOU KNOW, AS WE PUT TOGETHER THE SCENARIOS, REALLY WHAT WE ARE LOOKING AT IS, FIRST OF ALL, WE'RE HALF HALFWAY THROUGH THE YEAR AND WE WANT TO BE ABLE TO CONTINUE TO ASSESS THE MONTHLY SALES TAX COLLECTIONS SO THAT AS WE GET CLOSER TO THE PROPOSE THE BUDGET OBVIOUSLY WE WILL HAVE A PROJECTION FOR BOTH THIS YEAR AND NEXT YEAR. BUT WE REALLY WANTED TO HAVE IT PUT OUT THERE A RANGE SO WE KNOW WHERE OUR POSSIBILITIES LIE IN TERMS OF OUR REVENUE STREAM.

BUT THERE IS NO CAUSE AND EFFECT WITH HAVING A HIGHER SALES TAX, I MEAN A PROPERTY TAX RATE THAT WOULD LEAD TO A HIGHER SALES TAX GROWTH RATE. I DON'T SEE THAT.

COUNCIL MEMBER, I SEE WHERE YOU ARE GETTING. WHAT WE'VE DONE HERE IS TOOK A SCENARIO ONE WHICH IS REALLY A LOW REVENUE EXPENDITURE AND COMBINED LOW PROPERTY TAXES AND LOW SALES TAX AND REPLICATED REPLICATED THAT FOR ALL OF THEM. CERTAINLY GOING FORWARD, WE CAN SEE TAKING ONE PROPERTY SALES TAX FROM ONE SCENARIO TO ANOTHER, BUT WE WANTED TO LAY OUT THESE BANDS BEEN IN THE END WE WILL LAND IN BETWEEN THOSE BANDS. AND THEN, I THINK AN IMPORTANT FACTOR WE NEED TO TOUCH ON IS THAT, IS THE TAX RATES IN EACH OF THESE ASSUMED AND THE IMPACT OF THE 2006 BOND PROGRAM. WHEN THAT BOND PROGRAM WAS APPROVED, THE INVESTIGATORS APPROVED -- THE VOTERS APPROVED A 3-CENT TAX INCREASE TO PAY FOR THAT PROGRAM. TWO-CENTS WERE FOR THE DEBT SERVICE AND A PENNY WAS FOR THE ONM IMPACT. THE FIRST CENT OF THAT THREE CENTS WAS ADDED INTO THE BUDGET. WE PLAN ON ADDING ANOTHER PENNY IN THE '09 BUDGET FOR DEBT SERVICE. IN FISCAL YEAR '10 AND FISCAL YEAR '11 WE WILL TAKE THAT PENNY AND SPLIT IT OUT SO THERE IS A HALF PENNY IN EACH OF ANOTHER YEARS SO YOU SEE THE RATES REFLECTED. WE TAKE THE CALCULATED RATES AND ADD ON THE IMPACT OF THE BOND PROGRAM. FOR EXAMPLE YOU LOOK AT A NOMINAL TAX RATE, 40.34 CENTS, ADDING A PENNY BRINGS THAT UP TO 41.34.

I HAVE A QUESTION ABOUT THAT, GREG. I'M TRYING TO UNDERSTAND WHEN WE TALK ABOUT DEDICATING A PORTION OF OUR PROPERTY TAX REVENUE TO DEBT SERVICE, WHAT INTERPLAY DOES THAT HAVE WITH OUR BOND RATING?

IN TERMS OF --

I GUESS I'M TRYING TO FIGURE, I I WOULD ASSUME THE MORE DEBT WE HAVE THE LOWER OR BOND RATING WOULD BE OR THE WORSE OUR BOND RATING WOULD BE.

YOU ARE RIGHT, THE WORSE IT COULD BE, BUT THEY LOOK AT A NUMBER OF FACTORS AND THE NUMBER OF RATIOS AND BASED ON BASICALLY YOUR DEBT CAPACITY TYPE RATIOS

WHERE THEY LOOK AT YOUR REVENUES, THEY LOOK AT YOUR TAX RATE, THEY REALLY LOOK AT A NUMBER OF KIND OF FINANCIAL INDICATORS AND KIND OF LOOK AT IT AS A WHOLE. SO GENERALLY IT IS ALL ONE PACKAGE, IT IS NOT JUST SPECIFICALLY TIED TO YOUR DEBT SERVICE TAX RATE.

SO CONSIDERING THE BONDS THAT WE JUST ISSUED, WHICH I THINK YOU SAID WOULD ADD A PENNY BECAUSE OF DEBT, WE WOULD BE AT 41.32. DO YOU HAVE ANY BILL FOR WHAT OUR CURRENT BONDING CAPACITY IS?

WHEN WE SPOKE SO THE RATING AGENCY THIS PAST WINTER WHEN THEY UPGRADED US, THEY'VE KNOWN ABOUT OUR BOND PROGRAM FOR SOME TIME AND WE'VE ALWAYS SHARED THE LONG-RANGE PLAN HOW WE WOULD BUILD UP THE TAX RATE TO PAY FOR THAN AND THEY ARE COMFORT WITHIN THAT.

SO THEY CONTEMPLATE A REVENUE SOURCE TO RETIRE THE DEBT BEFORE THEY ISSUE IT.

YES.

THEY ARE SUPPORTIVE OF THE BOND PROGRAM, REALIZING CITIES NEED TO INVEST IN INFRASTRUCTURE AND THE PROGRAMS TO MAKE SURE THE CITY HAS A RELIABLE TAX BASE.

THAT IS EXACTLY CREDIT CARD. IN SOME CASES, CITIES HAVE SEEN DOWN RATING FROM THE RATING AGENCIES BECAUSE OF A LACK OF SUFFICIENT INVESTMENT IN THEIR INFRASTRUCTURE. THERE WAS CITY IN THE METRO PLEX THAT EXPERIENCED THAT EXACT OUTCOME.

THERE IS A LANE THAT IS COSTLY FOR RECONSTRUCTION AND REPLACEMENT.

THAT IS EXACTLY RIGHT. I MEAN, TO THE EXTENT YOU HAVE THE FIRST MAINTENANCE ON YOUR INFRASTRUCTURE IN YOUR COMMUNITY THAT IS ONE OF THE MANY FACTORS THAT LESLIE ALLUDED TO THAT IS TAKEN INTO ACCOUNT BY THE ANALYSTS PROVIDES THESE RATINGS FOR THE AGENCIES. THEY LOOK AT A NUMBER OF FACTORS, THE FACT THAT WE HAVE A DEDICATED REVENUE SOURCE OVER THE TERM THAT MATTERS TO THEM. THEY LOOK AT COVERAGE ISSUES DEPENDING ON THE KEEN OF DEBT YOU ARE TALKING ABOUT SO IT IS A GOOD THING YOU ALL HAVE PUT THIS STRATEGY IN CASE TO ALLOCATE THESE PENNYS OVER TIME FOR DEBT SERVICE OBLIGATIONS.

AND BACK WHEN WE WERE PLANNING FOR THE BOND PROGRAM, THIS WAS ACTUALLY WE REALLY JUST KIND OF LOOKED AT WHAT OUR CAPACITY WAS AT THAT TIME TO MAKE SURE WEAPON OKAY AND FORECAST -- MAKE SURE WE WERE OKAY AND FORECASTED OUT THE RATINGS AGENCIES, WHAT THEY TIPLY LOOK AT, SO WE PLOTTED THAT GOING FORWARD.

IT IS FAIR TO SAY WHEN ISSUING DEBT THE RATING SERVICES ARE LOOKING AT OUR POTENTIAL TO INCREASE OUR REVENUE SOURCE THROUGH PROPERTY TAXES OR OTHER MEANS. YOU DON'T ISSUE DEBT WITHOUT A PAYMENT STREAM.

THEY LOOK AT YOUR LOCAL YOUR TAX RATE, YOUR REVENUES, YOUR EXPENDITURES. REALLY YOU HAVE A CALL WITH THEM THAT IS SIMILAR TO THE TYPE OF STUFF WE'RE DISCUSSING TODAY.

OF COURSE THE OTHER THING, YOUR COUNCIL PROGRAM IS SPREAD OVER A NUMBER 6 YEAR, FIVE OR SIX, I DON'T RECALL, BUT OVER THAT PERIOD OF TIME YOU WILL BE SERVICING EXISTING DEBT AND YOU ARE ALSO INCREASING YOUR CAPACITY FOR A SUBSEQUENT BOND PROGRAM.

I THINK ANOTHER IDEA WITH THE DEBT SERVICE PORTION, REMEMBER THAT FALLS OUTSIDE ALL THE LIMITATIONS OF ROLL BACK AND EFFECTIVE RATE AND ALL THOSE THINGS THAT DEAL WITH OR OPERATING PORTION OF THE TAX RATE. SO IF WE WANTED TO ADD, IF WE HAD THE CAPACITY AND WANTED TO ADD 35-CENT 5 5-CENTS TO THE DEBT SERVICE, WE COULD DO THAT. THAT IS JUST HOW IT'S SUPPOSED TO. WE HAVE THAT, THE BOND, THE PEOPLE THAT BUY OUR BONDS HAVE THAT ASSURANCE WE WILL PAY THOSE BONDS BACK.

IN FACT, YOU ARE PLEDGING THE FULL FAITH AND CREDIT IN THAT PROCESS.

SO MOVING ON TO NOW TAKING ALL OF OUR COMMON ASSUMPTIONS THEN THE VARIABLE ASSUMPTION, WE WILL WALK YOU THROUGH RESULTS OF THESE THREE REVENUE SCENARIOS HERE. SCENARIO ONE IS BASED ON EFFECTIVE TAX RATE, YIELDS \$604 MILLION NEXT YEAR GETTING UP TO \$717 MILLION BY FISCAL YEAR 13. SCENARIO TWO IS A FLAT TAX RATE GENERATES SIGNIFICANTLY MORE REVENUE, \$14 MILLION MORE SO GROWING TO 768 MILLION IN THE OUT YEARS. AND FINALLY, SCENARIO NUMBER THREE, AS MAYOR PRO TEM INDICATED IT IS A marginally different scenario, certainly in the beginning year up to \$621 million and in the out years that actually grows a little bit up to \$799 million.

GOING BACK TO A COMMENT THAT COUNCIL MEMBER LEFFINGWELL MADE, I THINK THAT THIS GRAPH KIND OF REFLECTS THE QUESTIONS HE WAS ASKING BECAUSE IN SCENARIO ONE, BETWEEN SCENARIO ONE AND THREE YOU HAVE 100% INCREASE IN YOUR ESTIMATED SALES TAX GROWTH SO WHEN YOU GO TO THIS CHART, YES, SCENARIO THREE LOOKS LIKE IT IN TERMS OF REVENUE GENERATION IS PROBABLY THE BEST SCENARIO. BUT THERE IS STILL NO RATIONALE FOR YOU THAT I CAN SEE FOR US TO PROJECT A 4% SALES TAX GROWTH RATE IN SCENARIO THREE OPPOSED TO THE SAME 2% ONE PROJECTED IN SCENARIO ONE.

COUNCIL MEMBER, I DON'T DISAGREE. WE CAN CERTAINLY RUN THROUGH THE

PERMUTATIONS AND SHOW YOU WHERE WE RECEIVED BETWEEN THE OUTER EDGE AND THE SMALLER EDGE. WE KNOW WE WOULD BE SOMEWHERE BETWEEN THAT 604 AND 621 CONSIDER MILLION THERE, AT LEAST FOR THE UP-COMING YEAR, BUT I HEAR YOUR POINT AND IT IS JUST A WAY OF -- IT IS A DIFFERENT APPROACH NOT TO GO THROUGH EVERY POSSIBLE SCENARIO BUT REALLY JUST TO LAY OUT WHAT WE SAW, AN UPPER END AND A LOWER END.

THESE SCENARIOS ARE SOMETHING INTENDED BY WAY OF PROVIDING -- AS GREG ALLUDED TO, THERE ARE ANY NUMBER OF PERMUTATIONS WE COULD HAVE PROVIDED BUT WE HAPPENED TO HAVE CHOSEN THESE. I'M SURE WE WILL TALK ABOUT A VARIETY OF DIFFERENT SCENARIOS.

IT SEEMS MORE REALISTIC IF YOU ARE TRYING TO SHOW THE AFFECT ON REVENUE WITH VARIOUS PROPERTY TAX SCENARIOS, TO ME IT INJECTS CONFUSION WHEN YOU USE A DIFFERENT SALES TAX ASSUMPTION, GROWTH RATE, IT DOESN'T PRESENT A TRUE PICTURE OF WHAT THE AFFECT OF THE DIFFERENT PROPERTY TAX RATES ARE.

MAYOR?

COUNCIL MEMBER McCracken.

IN HEARING JON'S PRESENTATION, EARLIER WE SAW THAT THINGS LIKE HOW WE LAY OUT OUR COMMUNITY, AND POLICIES LIKE IN FILL DENSITY HAVE AN IMPACT, HOW OUR PEOPLE SPEND THEIR MONEY. IT IS PRETTY OBVIOUS RETAIL FOLLOWS ROOFTOPS SO IF MORE OF THE NEW RESIDENTS COMING INTO THE REGION ARE LIVING INSIDE THE CITY LIMITS OF AUSTIN THEY ARE MORE LIKELY TO USE THEIR SALES TAX DOLLARS IN THE CITY OF AUSTIN THAN THE OTHER COMMUNITIES. SO WITH THAT PREF FANS FOR THESE QUESTIONS -- PREFERENCE FOR THESE QUESTIONS, HOW MUCH OF OUR SALES TAX GROWTH IS DRIVEN OR LINKED TO NEW RESIDENTS MOVING IN OPPOSED TO ALL RESIDENTS. DOES THAT MAKE SENSE?

IT DOES BUT I DON'T THINK WE HAVE THAT DETAILED INFORMATION.

WE COULD LOOK AT IT ROUGH FLEE THAT WAY.

ACTUALLY SAY HYPOTHETICALLY THAT A THIRD OF OUR RESIDENTS, A THIRD OF OUR POPULATION IS NEW RESIDENTS OVER TIME OR SOMETHING LIKE THAT, PRESUMELY THAT IS A RAW INCREASE, EACH NEW RESIDENT IS SPENDING SOME PERCENT AND OF HIS OR HER INCOME FOR SALES TAX INSIDE THE CITY LIMITS OF AUSTIN, AND YOU CAN ISOLATE THAT AND MAYBE IN A ROUGH WAY, FROM THE -- JUST THE GENERAL TREND OF AS INCOMES GROW OR DON'T GROW. IT IS PROBABLY A BIG CHUNK OF OUR SALES TAX GROWTH IS BASED ON POPULATION GROWTH. [ONE MOMENT PLEASE FOR CHANGE IN CAPTIONERS] SOPHISTICATED ANALYSIS, BUT I THINK IT MERITS MAKING THE ATTEMPT

NEVERTHELESS. AUSTIN HAS A HIGHER RELIANCE ON SALES TAX THAN OTHER CITIES. OBVIOUSLY, IT IMPACTS MODERATION IN THIS SALES TAX GROWTH SO IT IMPACTS OUR REVENUE PROJECTIONS AND GROWTH FOR NEXT YEAR. OUR EFFECTIVE TAKS TASHGS RATE PRODUCES AN IMBALANCE IN OUR REVENUE. THE GROWTH THE REVENUE ACTUALLY FLATTENS OUT OVER THE YEAR VERSES THE DIAMOND AND THE ROLL BACK IT'S MORE STEADY GOING FORWARD ON OUR REVENUE PROJECTIONS. SO AT THAT TIME, MAYOR, I WOULD STOP AND SEE IF THERE'S ANY OTHER QUESTIONS, UM, THAT YOU OR THE COUNCIL MEMBERS MIGHT HAVE.

THANKS GREG. QUESTIONS AGAIN ON THE REVENUE? IT SEEMS TO ME IN THINKING ABOUT COUNCILMEMBER LEFFINGWELL ORIGINAL POINT ABOUT THE VARIABILITY AND THE ASSUMPTION ON THE SALES TAX AS A WORSE-CASE SCENARIO IT SEEMS TO ME THE GRAPH THAT SHOWS THE THREE LINES OF FUTURE REVENUE, I'D CHARACTERIZE THAT AS A BEST CASE SI SCENARIO AND WORST CASE SCENARIO. WE CAN LOOK AT THE RANGE OF WHAT THE SPECTRUM OF POTENTIAL FUTURE REVENUES IS LIKELY TO BE. QUESTIONS OR COMMENTS ON THE REVENUE SIDE? IF NOT, LET'S GO INTO (INDISCERNIBLE).

WE'LL COME ON PLUGGING ALONG. SO NOW LET'S DO TALK ABOUT OUR EXPENDITURES. WE'VE PUT ONE ASSUMPTION TOGETHER AND WANT TO TALK ABOUT THE ASUFRMGS WE'VE BASED THAT ON. IT'S BASED ON THE MAIN PREMISE OF KEEPING OUR FUNDING FLAT FOR NEXT YEAR FOR ALL OF OUR SERVICES; PUBLIC SAFETY, PUBLIC HEALTH, SOCIAL SERVICES AS WELL AS OUR -- THANK YOU LESLEY I GOT BEHIND ON MY SLIDES. (LAUGHTER) AND THEN FOR OTHER DEVELOPMENT SERVICES AS WELL. AND THEN SECONDLY, WHAT WE'VE LOOKED AT, WE'VE ADDRESS COST INCREASES FOR THOSE SERVICES IN THE BUDGET THAT WE KNOW HAVE ANNUAL COST INCREASES. OBVIOUS LAY MAJOR COMPONENT OF OUR GENERAL FUND IS, UM, IS OUR EMPLOYEES, OUR SALLY COST THAT ARE ABOUT 78% OF OUR ENTIRE GENERAL FUND BUDGET. AND SO FOR THIS, FOR THIS FORECAST PERIOD, WE HAVE INCLUDE ED A PAY IP CREASE FOR EACH YEAR. THAT IS THE SAME FOR OUR ENTIRE WORKFORCE. THERE IS NO, WE DO NOT HAVE A 2% PREMIUM OR LUMP SUM IN ANY OF THE YEAR FOR ANY OF THE FORECAST PERIOD. SO AGAIN T PAPER PERFORMANCE, THE INCREASE IS THE SAME FOR OUR CIVILIAN AND SWORN EMPLOYEES. MOVING FORWARD. ANOTHER BIG COST FACTOR FOR US FOR THE CITY OBVIOUSLY IS HEALTH INSURANCE COST. WE'RE PROJECTING RIGHT NOW 10% INCREASE FOR NEXT YEAR AS WELL AS THE OUT YEARS. THAT'S BASED ON DISCUSSIONS THAT HR HAS HAD WITH THE PROVIDERS. EACH YEAR WE LOOK FOR OPPORTUNITIES TO BRING THAT PERCENTAGE DOWN. WE ALSO CAN CONTINUE TO MARKET STUDY PROGRAM. WE'VE GONE THROUGH 1/3 OF THE WORK FORCE ALREADY AND SO THERE ICE ANOTHER TWO YEARS OF COMPLETING THAT MARKET STUDY PROGRAM. SO WE HAVE DOLLARS IN THERE FOR THAT. UM, AND THEN FINALLY, UM, AND ADDITIONALLY WE HAVE SOME STAFFING FOLLOW SI TO MAINTAIN OUR 2.0 OFFICERS PER THOUSAND POPULATION. THAT WILL RESULT IN ADDITIONAL 24 POLICE OFFICER POSITIONS. THEN OBVIOUSLY WE'VE ALSO INCLUDED COUNCIL INDICATED TO INCLUDE NEED FOR PUBLIC SAFETY. THIS INCLUDES THE ESTIMATE OF THOSE COSTS THAT THE TIME. ADDITIONALLY, WE HAVE THE O AND M COST OF NEW FA SKILTS THAT WILL BE

OPENING THROUGHOUT THE FORECAST PERIOD YOD. FOR THE UPCOMING YEAR JUST TO IE HEIGHT SOME THAT INCLUDES A NEW FIRE STATION, AVERY RANCH FIRE STATION AND THEN TWO LIBRARY, NORTH VILLAGE AND TWIN OAKS AND THE COLORADO RIVER PARK. WE WOULD BE THREW WITH THAT BOND PROGRAM. SOMETHING NEW THIS YEAR, SOMETHING WE HAVEN'T SHOWN IN THE FORECAST PERIOD BUT WE THOUGHT IT WAS IMPORTANT THIS YEAR, WAS ACTUALLY PUT AN INFLATIONARY FACTOR WERE DEAPARTMENT'S COST OF FUEL AND UTILITIES, CONTRACTUAL SERVICES. MANY HAVE CONTRACTS TO PROVIDE SERVICES, FOR EXAMPLE THE HEALTH DEPARTMENT HAS A CONTRACT TO RUN THE ARCH, SO WE WANT TO MAKE SURE WE CAN COVER THAT DURING, PUT SOME NUMBERS IN THERE FOR THE FORECAST AS WE BEGIN TO WORK OBJECT BUDGET. FINALLY, CONSISTENT WITH PYRE YEARS WE'RE SHOWING INCREASE IN SOCIAL SERVICE CONTRACT. KNOWING LIKE ALL ENTITIES THEY ARE FACING THE SAME COST INCREASES THAT WE ALL ARE FACING IN PROVIDING BASELINE SERVICES. SO WE'VE INCLUDED A FACTOR IN THAT TO INCLUDE -- TO INCREASE THEIR DOLLARS.

ONE QUESTION.

COUNCILMEMBER KIM.

HEALTH INSURANCE FOR THE THREE BUDGETS I'VE WORKED ON IT'S GONE UP 10%, 12% ALWAYS SEEMED TO BE MUCH MORE THAN INFLATION. IS THERE ANY WAY WE CAN GET A CHART BECAUSE YOU SAID I THINK SALARIES AND BENEFITS ARE 78% OF THE GENERAL FUND. DO WE ADD-ON TOP OF THAT HEALTH CARE COST?

THAT'S INCLUDED IN THAT NUMBER. THAT 78% REPRESENTS THE ENTIRE PERSONNEL COST INCLUDING HEALTH INSURANCE COST.

IS THERE ANY WAY I CAN GET LIKE A PERCENTAGE OF OUR GENERAL FUND THAT HAS BEEN HEALTH INSURANCE FOR THE PAST? I WANT TO SEE WHAT THE TREND HAS BEEN.

ABSOLUTELY.

AND WHAT THAT RAW NUMBER IS IN ADDITION TO THE PERCENTAGE.

YES. THANK YOU.

JUST BEFORE WE MOVE ON MAYOR, ON THE SOCIAL SERVICE CONTRACTS, I'M GLAD TO SEE WE'RE MAINTAINING OUR COMMITMENT AND TRYING TO INCREASE IT. BUT ONE OF THE THINGS THAT CAME OUT IN CONVERSATION, THINK IT WAS IN OUR HEALTH AND HUMAN SERSS SUB COMMITTEE MEETING, WHERE I SPOKE ABOUT WANTING TO SEE MORE OF A TRANSPARENT AND PUBLIC EVALUATION CRITERIA OR NEED ACE SESZMENT FOR THOSE MPOs THAT WE'RE ENGAGING WITH BECAUSE I BELIEVE THAT OVER TIME I GET THE FEELING THAT WE'VE CREATE ED A SENSE OF ENTITLEMENT FOR THE CONTRACTING

SERVICES AS OPPOSED TO CONTINUING THAT CONTRACT BASED ON PERFORMANCE MEASURES. AND I KNOW THAT THERE ARE PERFORMANCE MEASURES. I KNOW STAFF GOES THROUGH AND THAT AND EVALUATES IT, BUT I THINK IT NEEDS TO BE TRANSPARENT MORE AND I'D LIKE TO SEE THAT AS PART OF THE BUDGET DISCUSSION INSTEAD OF JUST SAYING WE'RE GOING MAINTAIN CONTRACTS AND BUMP THEM UP. I THINK WE'RE ALREADY STATING THAT IT DOESN'T MATTER WHAT THEY'VE DONE THIS PAST YEAR, WE'RE JUST GOING GIVE THEM MORE MONEY. AND I THINK THAT BECAUSE WE INVEST SO MUCH IN SOCIAL SERVICES I THINK WE OWE IT TO THOSE AGENCIES AND CITIZENS TO MAKE SURE THE INVESTMENT IS WORTHY OF WHAT WE ARE PAYING THEM.

WE HAVE TALKED ABOUT THAT SOMETHING LIKE DEVELOPING A MATRIX SIMILAR TO WHAT WE DO FOR ARTS CONTRACTS. AND I BELIEVE MR. LAER RI IS WORKING ON THAT. WE ALSO WANTED TO TALK ABOUT INTEGRATING OUR FUNDING FOR SOCIAL SERVICE CONTRACTS WITH THE OTHER PROVIDERS. SO THAT WHEN OTHERS MAKE ADJUSTMENTS, WE CAN REACT TO THOSE ADJUSTMENTS AND PERHAPS MAKE UP GROUND WHERE IT'S NEEDED. AS WE'VE FOUND OURSELVES DOING ON AN INTERIM BASIS IN THE LAST COUPLE OF MONTHS AFTER ONE OF THE PROVIDERS ADJUSTED THEIR ALLOCATION FORMULA. SO THAT NEEDS TO BE IN THE MIX TOO, I THINK. SO MOVING ON BEFORE I SHOW YOU THE PROJECTED FIVE YEARS, I WANTED TO SHOW YOU REALLY WHAT AGAIN IS REALLY AN ESTIMATED PRELIMINARY INCREASE FOR OUR GENERAL FUND. TRYING TO BREAK IT OUT INTO SOME SECTIONS OF A WAY TO SLICE THE BUDGET. SO RIGHT NOW WE'RE LOOKING AT, AGAIN, PRELIMINARY NUMBERS ARE INCREASE OF ABOUT \$48 MILLION AND THESE BASE INCREASES AND NOT SURPRISINGLY PERSONNEL AGAIN BEING THAT IT'S A BIG PART OF OUR BUDGET IS GOING UP \$17 MILLION. OUR OTHER DEPARTMENTAL COSTS, SOME OF THOSE ITEMS I MENTIONED, YOU KNOW, OUR POLICY FOR OUR OFFICERS, NEW FACILITIES, ANALYZING THINGS WE ADDED IN LAST YEARS BUDGET WE MIGHT HAVE ONLY HADDED FOR LET'S SAY SIX OR TEN PAY PERIODS. WE NEED TO ADD THE FUNDING FOR THE ENTIRE YEAR. THOSE OUTSIDE CONTRACTS THAT ARE JAIL AND LOCAL WITH TRAVIS COUNTY. CONTRACT WITH FRONT STEPS FOR THE ARCH AS WELL AS OTHERS. AND THEN INFLATIONARY INCREASES THAT WE'VE PUT IN THERE TO MAKE SURE WE CAN COVER SOME OF THOSE COSTS THAT WE KNOW ARE GOING UP. AND THEN FINALLY WE HAVE OUR TRANSFERS RIGHT NOW ARE SLIGHTED TO GO UP BY ABOUT \$13 MILLION. MOST OF THAT IS FOR THE COST, THE GENERAL FUND'S COST FOR THOSE INTERNAL SERVICE FUNDS, SUPPORT SERVICES, IT DEPARTMENT, GETTING ADDITIONAL FUNDING TO THE TRANSPORTATION FUND TO HELP THEM ON THEIR STREET PREVENTATIVE MAINTENANCE, AS WELL AS ECONOMIC INCENTIVES. HERE AGAIN ARE OUR EXPENDITURE FORECAST MOVING FORWARD TAKING THOSE ASSUMPTION. WE LAND ON ABOUT \$641 MILLION OF EXPENDITURES FOR THE UPCOMING YEAR. GROWING UP TO \$816 MILLION. AND WHAT THIS IS, OF COURSE IS THIS ASSUMING EACH YEARS PRIOR EXPENDITURES HAVE BEEN FULLY FUNDED. WE KNOW WE'LL COME UP WITH THE HYBRID APPROACH TO BALANCE THE BUDGET. SO, BUT THIS IS A PROJECTING ANNUAL INCREASES AS IF THEY WERE ALL FUNDED IN THE PRIOR YEARS. UM, SO JUST A QUICK SUMMARY. AGAIN WE ARE INCREASING OUR

EXPENDITURES INCREASING RANGING BETWEEN 41 AND \$48 MILLION ANNUALLY. LAST YEAR THEY GROW BY ABOUT \$52 MILLION. SO WE ARE, YOU KNOW, WE'VE DONE EARLIER JOB OF TRYING TO LOOK AT THOSE BASIC EXPENDITURES TRYING TO SCRUB SOME OF THOSE RIGHT NOW. BUT KNOWING WE HAVE MORE WORK TO DO BUT MOST IMPORTANTLY HAVE DISCUSSIONS AND INPUT OVER THE COURSE OF THESE WORK SESSIONS. AND THE COST INCLUDED IN THIS ARE LOOKING AT THOSE INFLATIONARY COST FOR FUEL, OUR OUTSIDE CONTRACTS, AND OTHER COSTS THAT THAT ARE CORRECTED DI POLICY ARE EMPLOYEE PASHGS HEALTH INSURANCE AND STAFFING POLICIES. IT IS IMPORTANT TO NOTE THAT PROJECTIONS DO NOT INCLUDE ANY FUNDING FOR ANY SERVICE OR OPERATIONAL OR PROGRAM MA TICK ENHANCEMENTS. IT IS JUST CONTINUING DOING BUSINESS. SO WITH THAT --

SO RIGHT NOW WE'RE LOOKING AT A \$35 MILLION DEFICIT BETWEEN EXPENDITURE PROJECTED AND REVENUES UNDER THE EFFECTIVE RATE?

AT THE SCENARIO RUN ONE, THAT'S CORRECT. BUT LEFT A GAP UNDER SCENARIOS TWO AND THREE.

UM, UNDER THREE IT'S CLOSE TO \$20 MILLION. WE'LL BE COVERING THAT IN A JUST A MINUTE AFTER WE GO THROUGH THE RESERVES SO WE'LL WALK YOU THROUGH THAT. SO, AS WE START TO WRAP UP, WE'D LIKE TO COVER THE CURRENT STAT US OF OUR GENERAL FUND RESERVES. UM, WE CURRENTLY HAVE THREE SEPARATE RESERVE FUNDS TO HELP CUSHION UZ AGAINST EMERGENCIES AND CONTINGENCIES. TWO OF THOSE RESERVES ARE SHOWN ON THIS SLIDE. RIGHT NOW, THEY TOTAL IN BOTH OF THOSE ADDED TOGETHER ABOUT \$46 MILLION. THE EMERGENCY RESERVE BASICALLY PROVIDE TEMPORARY FUNDING FOR UNANTICIPATED OR UNFORSEEN EXTRAORDINARY EVENTS LIKE A NATURAL DISASTER. IS CONTINGENCY RESERVE IS BACKUP FUND OF THAT. THE RATING AGENCIES DO CONSIDER BOTH OF THESE IN CONTEXT TOGETHER TO BE A REALLY GOOD BENCHMARK. THEY ARE CLOSE TO JUST LITTLE BIT UNDER 120% OF BUDGETED OPERATING EXPENSES AND THAT WAS FACTOR WHEN WE RECENTLY GOT UPGRADED TO OUR TRIPLE A RATING THIS PAST WINTER BY STANDARD AND POOR. UM, THE BUDGET STABLELIZATION RESERVE IS THE THIRD RESERVE FUND THAT WAS CREATED IN 2006 AND THAT FUND IS REALLY DESIGNED TO PROVIDE THE FLEXIBILITY OF BACKUP FUNDING WHEN IT'S NEEDED. AND THE WAY THAT THE SPENDING OF THAT FUND IS GOVERNED, IT'S ALSO DESIGNED TO PREVENT A RAPID DEPLETION OF FUNDS. THE WAY THIS WORKS IS AT THE END OF EACH YEAR EXCESS REVENUE OVER AND ABOVE WHAT WE'VE ACTUALLY SPENT FOR THE YEAR IS DEPOSITED INTO THE RESERVE RATHER THAN KEEPING AN ENDING FUND BALANCE. WE'VE DONE THAT IN THE PAST, I THINK SOME OTHER CITY DOS THAT PRACTICE, BUT WE WENT TO THIS IN 2006. AND THEN ONCE ALL THAT SURPLUS HAS BEEN SWEEPED INTO AND ASSUMELATED IN THIS FUND, THEN WE CAN SPEND 1/3 OF THAT DURING ANY GIVEN YEAR AND THEN WE RESERVE THE REMAINING TWO-THIRDS FOR FUTURE YEARS. SO WE TYPICALLY USE IT FOR COST OF A ONE-TIME TYPE NATURE OR FOR CAPITAL

REPLACEMENT. AND THIS NEXT SLIDE JUST KIND OF GIVES YOU --

EXCUSE ME.

AS WE START GOING FORWARD, CAN WE GO BACK TO 2006 AND JUST GIVE COUNCIL SNAPSHOT OF WHAT WE DECIDED TO DO WITH ONE-TIME EXPENDITURES?

IN 2006?

AND LAST YEAR AS WELL. AND HOW MUCH THAT ENDED UP BEING.

OKAY.

AND WHETHER WE REPAID THAT AS REQUIRED UNDER OUR FINANCIAL POLICY.

UM, SO THIS IS A SNAPSHOT OF THE CURRENT YEAR. AND YOU CAN' SEE THAT WE ARE ACTUALLY STARTING TO -- WE STARTED THE YEAR WITH A BALANCE OF \$52 MILLION. LET'S SEE. JUST IN TERMS OF THE YELLOW LINE ACROSS THE PAGE, THIS IS THE MAIN REAL THINK PRIMARY PURPOSE THAT WE UTILIZE THIS FUND FROM YEAR TO YEAR FOR AGAIN. IT'S CAPITAL AND ONE TIME FUNDS. AND AGAIN, I THINK YOU KNOW WHEN TIMES GET A LITTLE TIGHT, YOU CAN ACTUALLY DEFER THOSE CAPITAL NEEDS, BUT OF COURSE YOU CAN'T DO THAT INDEFINITELY. SO THIS WILL BE ANOTHER AREA THAT WE'LL BE LOOKING AT VERY HARD BOTH THIS YEAR AND NEXT AS WE EXPECT TO HAVE LESS FUNDING FOR CAPITAL IN 2009. NOW HAVING SAID THAT, UM, YOU KNOW DURING TIMES WHEN YOU CAN'T ALWAYS CASH FUND YOUR CAPITAL, YOU LOOK AT THE RIGHT MIX BETWEEN DEBT FINANCING AND CASH FUNDING. SO WE'LL BE LOOKING AT THAT AS WELL. AND ON THE SILVER LINING SIDE, WHEN WE DID THE REFUNDING THIS PAST YEAR, WITH THE SAVINGS THAT WERE GENERATED FROM THAT, WE'RE EXPECTING TO REDUCE OUR DEBT SERVICE NEXT YEAR JUST BASED ON OUR EXISTING PAYMENTS BY ABOUT A MILLION DOLLARS. SO THAT'S GOOD THERE.

BUT THIS CHART ESSENTIALLY IS ASSUMING THAT THERE ARE NO OPERATIONAL SAVINGS ENDING YEAR BLALS THIS YEAR?

RIGHT. AT THIS POINT IN TIME. NOW, JUST TO TALK ABOUT THAT A LITTLE BIT AND I THINK WE'VE GOT A WRAPUP SLIDE ON THAT AS WE GO FORWARD. WE ARE WORKING TO LIVE WITHIN OUR MEANS THIS YEAR IN SPITE OF THE FACT THAT SALES TAX IS COMING IN LOWER THAN WE ANTICIPATED. SO WE'RE WORKING WITH ALL OF OUR DEPARTMENT DIRECTORS IN THE GENERAL FUND TO GENERATE SAVINGS. I THINK I MENTIONED EARLIER THAT WE THINK THAT WILL JUST BETTER POSITION US NOT ONLY FOR THIS YEAR BUT FOR NEXT YEAR AS WELL. AND SO, BESIDES COVERING THE LOWER COLLECTIONS AND SALES TAX, WHAT WE'RE LOOKING TO DO THIS YEAR IS POSSIBLY GENERATE SOME ADDITIONAL FUNDS SO THAT WE CAN START TO REPLENISH THIS RESERVE AND HAVE MORE FOR

CAPITAL IN THE FUTURE. THAT'S KIND OF A SECONDARY OBJECTIVE IN THE CURRENT YEAR. UM, AND I THINK THE POINT HERE WAS JUST TO ON THIS SLIDE WAS TO SHOW COUNCIL THE TYPES OF EXPENDITURES THAT TYPICALLY COME OUT OF THIS FUND. IT'S REALLY PRIMARILY OUR VEHICLES, OUR HEAVY EQUIPMENT, OUR I. T. EQUIPMENT AND AGAIN WE'LL JUST BE LOOKING AT THIS LONG AND CAREFUL AS WE MOVE INTO THE 2009 BUDGET PROCESS. (WHISPERS) AND WITH THAT, WE'RE KIND OF MOVING TO SUM UP AND -- WHOOPS, I WENT TOO FAST. OKAY. THIS GRAPH BASICALLY LOOKS SPECIFICALLY AT THE RANGE OF POSSIBLE ESTIMATES FOR 2009. KIND OF PLOTTING THE THREE DIFFERENT POSSIBLE REVENUE FORECASTS CAN THE CAVEAT THAT ANY OF THOSE COULD REASONABLY MATERIALIZE ON A SALES TAX PERSPECTIVE. SO UNDER SCENARIO ONE WITH THE LOWERING OF THE TAX RATE TO THE EFFECTIVE TAX RATE AND WE'RE SHOWING CONSERVATIVE SALES TAX GROWTH OF ABOUT THREE% OUR TOTAL ESTIMATED REVENUE IS CLOSE TO \$605 MILLION COMPARED TO EXPENDITURES OF \$641 MILLION. AND THAT PRODUCES A SHORTFALL OF OVER \$3 MILLION. THEN WHEN YOU MOVE TO THE SECOND LINE, SCENARIO TWO, THAT'S BASED ON REVENUE ASSUMPTIONS OF KEEPING THE TAX RATE FLAT AND SLIGHTLY HIGHER SALES TAX GROWTH OF 3 HAND A HALF PERCENT. SO KEEPING THE TAX RATE UNCHANGED DOES INCREASE PROPERTY TAX REVENUE BY MORE THAN (1) 000-0000. I THINK THAT GETS BACK TO COUNCILMEMBER LEFFINGWELL'S POINT OF WHAT'S THE ISOLATED IMPACT OF THE PROPERTY TAX REVENUE. AND THEN WHEN YOU LOOK AT THE THIRD SCENARIO, UM, YOU'VE GOT JUST marginally MORE -- EXCUSE ME PROPERTY TAX REVENUE THERE BY GOING TO THE ROLL BACK RATE. YOU CAN SEE \$209,200,000 FIRSTS \$209,600,000. THE MAIN THERE IS LOOKING AT POTENTIAL GROWTH IN THE SALES TAX REVENUE CATEGORY AND THAT PRODUCES A SHORTFALL OF CLOSE TO \$20 MILLION.

IN LOOKING AT THE GAP PROJECTED LET'S START WITH THE EXPENDITURE LEVEL. WHAT SALARY ASSUMPTIONS ARE WE MAKING FOR THE GENERAL WORKFORCE AND ALSO WHAT SALARY INCREASE ASSUMPTIONS ARE WE MAKING RELATIVE TO ANY PREMIUMS IN THE PUBLIC SAFETY CONTRACTS?

WE MADE THE SAME FOR THE ENTIRE WORKFORCE IN THIS FORECAST AND WE DID AN AVERAGE OF 3.875.

WASN'T LAST YEAR 3.5%?

IT'S 3.5 IS IF YOU MEET EXPECTATIONS ON YOUR PERFORMANCE REVIEW. AND THEN IF YOU EXCEED THERE'S A 1.5% BUMP ABOVE THAT. SO ON THE AVERAGE, BASED ON WHAT WE'VE SEEN IN YOU KNOW OVER THE HISTORY OF TIME, IT'S BEEN MORE LIKE 3.875. SO WE INCLUDE THAT NUMBER IN THE FORECAST.

AND WE'RE LOOKING AT THAT SAME PERCENTAGE @ PUBLIC SAFETY CONTRACT ALSO WITH NO PREMIUM?

WE INCLUDED THAT FOR THE ENTIRE WORKFORCE T 3.875.

BUDGET FOR THE STREET MAINTENANCE THAT WE INCREASED IT OVER TIME FROM 8% TO 9 AND NOW 9.5%. I UNDERSTAND IT'S THE MORE EXPENSIVE STREET MAINTENANCE THAT WE HAVE LEFT TO DO BECAUSE WE DID THE LESS COST STEP FIRST. DOES THIS ASSUME A 9.5?

THIS ASSUMED APPROXIMATELY ABOUT A \$800,000 OVER THE TRANSPORTATION FUND TO HELP THEM ATTAIN THAT 9.5%. THEY'RE STILL LOOKING AT THEIR REVENUE STREAM FROM THE THE ANSWER PORATION FUND SPERS PECKTIVE SO THEY THAI THE MIX THOSE TOGETHER. THEY'RE GOING TO TALK TO YOU IN TWO WEEKS AND TELL YOU WHERE THEY'RE GOING THE END UP WITH THEIR OVERALL BUDGET. WE HAVE ASSUMED THE GENERAL FUND WOULD CONTINUE TO INCREASE IT'S TRANSFER TO HELP THE TRANSPORTATION FUND, HELP THEM GET TO WHERE THEY NEED TO BE.

WHEN YOU SAY WE'RE DOING \$800,000 MORE FROM THE GENERAL FUND AND COMMITMENT, DIDN'T WE DO BUDGET STABILIZATION COMMITMENTS LAST YEAR TO TLAECH.5%?

WE DID A COMMITMENT BUT IT WASN'T A OUT OF THE PLAN IT WAS OUT OF THE GENERAL FUND ITSELF. IT'S A TRANSFER OUT OF THE GENERAL FUND POT.

BUT IT WAS A ONE-TIME EXPENDITURE. IT WASN'T A STRAUKT RAL CHANGE IN THE BUDGET?

IT WAS TREATED AS AN ON-GOING TRANSFER TO THEM. NOW THE TRANSPORTATION FUND ITSELF, WHEN THEY WERE LOOKING AT WAYS TO WORK WITHIN THEIR INTERNAL FUND, THEY FOUND SOME ONE-TIME SAVINGS IN THEIR CAPITAL PROGRAM THAT THEY PROGRAMMED TOWARDS STREET PREVENTATIVE MAINTENANCE. THAT'S SOMETHING THEY'RE GOING TO HAVE TO ASSESS ON GOING IS HOW TO REPLACE THOSE FUND USES.

AND JUST FYI YOUR SCENARIO ONE ON PAGE 19 YOUR ASSUMPTION WAS 2%. IT IS NOW 3%.

THANK YOU FOR THAT. IT IS 2%.

I KNOW YOU'RE JUST TRYING TO CREATE OPTIONS.

YEAH. (LAUGHTER)

ONE MORE OPTION.

GOING BACK TO THIS BUDGET STABILIZATION RESERVE FUND CHART, THE YELLOW HIGH LIGHTED LINE, LOOKS LIKE THAT IS APPROXIMATELY BUT NOT EXACTLY 1/3 OF THE BEGINNING BALANCE. IS THAT WHAT THAT NUMBER REALLY MEANS?

YES. THAT'S TYPICALLY WHAT WE TRIED TO LIMIT OUR SPENDING TO. IN ANY YEAR.

SO IN 200 # WE WERE \$5 MILLION OVER OUR POLICY, CORRECT? IS THAT RIGHT?

YES.

WE MADE A ONE-TIME --

IT'S ACTUALLY SHOWN ON THE NEXT ONE.

YEAH. SO I THINK WHAT'S LITTLE BIT DISTURBING IS BOTH OF THESE YEARS WE'RE NOT CONTRIBUTING ANYTHING BACK INTO THE STABLELIZATION FUND. SO WE'RE ON A TREND TO DECREASE THAT. AND I THINK THAT'S TROUBLING BECAUSE, YOU KNOW, AS SOME KIND OF AN ECONOMIC CATASTROPHIC EVENT WE DON'T HAVE ANYTHING TO FALL BACK ON EXCEPT THE EMERGENCY FUNDS.

WE SHARE YOUR CONCERN.

I THINK THE CHIEF FINANCIAL OFFICERS INITIATIVE TO GET THE DEPARTMENTS TO COOPERATE IN THIS SAVINGS INITIATIVE, PART OF RT INTENT THERE IS TO REPLACE \$5 MILLION.

AND GET BACK ON AT LEAST A LEVEL OR POSITIVE TREND?

THAT'S RIGHT. THAT'S CORRECT.

WE MENTIONED PREVIOUSLY THAT OUR GOAL THIS YEAR TO MAKE UP THE DEFICIENCY IN THE SALES TAX REVENUES AND THEN ALSO TO WORK TOWARDS GENERATING A SURPLUS SO WE CAN START TO REBUILD. SO, UM, WRAPPING UP THEN, JUST SOME PRELIMINARY CONCLUSIONS THAT WE'D LIKE TO RECAP HERE T. LOCAL ECONOMY IS GROWING, BUT WE DO ANTICIPATE THAT THAT WILL OCCUR AT MORE MODEST LEVELS. UM, WE HAVE INCLUDED IN ALL THREE OF THE SCENARIOS MODERATE SALES TAX GROWTH AND WE THINK REALLY WHEN YOU LOOK AT THE RANGE OF ANYWHERE FROM 3%-4% BASED ON DISCUSSIONS WITH JOHN HOCKENYOS THOSE CAN BE ACHIEVED. WE'LL CONTINUE TO LOOK AT SALES TAX THIS YEAR AND AS WE GET CLOSER TO DELIVERING A PROPOSED BUDGET WE'LL SETTLE ON WA WE THINK TO BE MOST REALISTICALLY ACHIEVABLE AT THAT POINT IN TIME. IN TERMS OF THE BASIC EXPENDITURE PROJECTIONS WANTED TO REITERATE NAH IN THIS FORECAST HERE WE HAVEN'T PLANNED ANY BUDGET ENHANCEMENTS. AND OF COURSE JUST THE OBSERVATION THAT IT'S VERY EVIDENT UNDER ALL THREE OF THE REVENUE SCENARIOS THE PROJURY EXCUSEDS AREN'T SUFFICIENT TO COVER THE ESTIMATED COST. AND THE ONE THING THAT WILL MAKE IT AS MAYOR PRO TEM DUNKERLEY PUT IT CHALLENGING IS THAT WE DON'T HAVE THE HIGH SALES TAX GROWTH AND THE THINGS LIKE THE DEVELOPMENT REVENUES COMING IN. SO

WE'LL BE SCRUTINIZING THINGS AND YOU KNOW WORKING TO MOVE FORWARD ON A BUDGET WORKING WITH YOU AND BRINGING BACK A BALANCED BUDGET IN JULY. ONE THING THAT WE JUST WANTED TO NOTE ON THE REVENUE SIDE, JUST KIND OF AS A FINAL POINT THAT'S BEEN DISCUSSED QUITE A BIT TODAY; KEEPING THE TAX RATE FLAT OVER THE LONG TERM. FOR EXAMPLE LOOKING AT THE NOMINAL RATE SCENARIO. IT REALLY, WE LOOKED AT THAT PIECE OF THE REVENUE BUY PI WHERE YOU LOOK AT PROPERTY TAXES VERSUS SALES TAXES. WE ALSO LOOKED AT THAT OVER THE FIVE-YEAR PERIOD AND IF YOU KEPT THE TAX RATE FLAT FOR A FIVE-YEAR PERIOD, PROPERTY TAXES WOULD ACTUALLY MOVE FROM MORE OF A 30% PIECE OF THE PIE TO A 35% PIECE OF THE PIE. AND I THINK AS WE'VE BEEN TALKING THAT WOULD REALLY KIND OF HELP TO MOVE US TO AN OVERALL REVENUE STRING THAT'S MORE STABLE AND EASIER TO PREDICT. SO, WITH THAT, WE WILL SUM UP AND WE'RE LOOKING FORWARD TO WORKING WITH YOU THROUGHOUT THE BUDGET PROCESS GETTING YOUR FEEDBACK, YOUR INPUT, AND WE WILL CONTINUE TO WORK WITH YOU THROUGHOUT THE SPRING AND THEN COME BACK IN JULY WITH A BALANCED BUDGET. THANK YOU.

YOU WANT TO JUST CLOSE BY TALKING ABOUT NEXT STEPS FOR US?

YES. SO NEXT STEPS, WE WENT OVER THE CALENDER EARLIER. THE NEXT TIME WE'LL BE COMING BACK TO YOU WILL BE ON MAY 7TH TO LOOK AT THE ENTERPRISE FUNDS AND OF COURSE THAT WILL BE THE WATER UTILITY, THE ELECTRIC UTILITY, DRAINAGE, AIRPORT, CONVENTION CENTER, TRANSPORTATION FUND AND SOLID WASTE SERVICES. IN EARLY MAY WE WILL GET OUR NEXT SALES TAX PAYMENT SO WE'LL KEEP YOU UPDATED THERE AS TO HOW THAT COMES IN. MAY THE 14th AND 21th THEN WILL BE OUR GENERAL FUND BRIEFINGS. THEN IN JUNE WE'LL COME BACK TO YOU TO WRAP UP AND GET FINAL INPUT AND FEEDBACK AND THEN WE'LL GO OFF AND PREPARE THE BUDGET SUBMIT L. AND WE HAVE THAT SCHEDULED FOR PRESENTATION ON JULY THE 24th.

AND THEN FINALLY, MAYOR AND KOUN ILL MEMBERS WITH RESPECT TO YOUR QUESTIONS AND INQUIRIES TODAY WE'LL BE PULLING THAT INFORMATION TOGETHER BETWEEN NOW TAPD NEXT WORK SESSION AND PROVIDING THAT TO YOU IN ADVANCE IN WRITING AND WE'LL SOME SOME TIME AT THE OUTSET JUST GIVING YOU HIGH LEVEL REVIEW OF THAT INFORMATION.

AND WE'LL ALSO KICK OFF OUR BUDGET Q&A PROCESS AS WELL WHICH WILL BE ANYTHING THAT YOU GUYS WANT TO FUNNEL FORWARD AND THEN WE'LL POST THAT ON THE WEB SITE FOR THE PUBLIC AS WELL.

WE'LL START THAT RIGHT NOW, THE Q&A?

YES.

COUNCILMEMBER COLE.

WHAT PAGE?

PAGE 36. I'M TRYING TO MAKE SURE THAT I GOT PAGE 8 WITH PAGE 36.

KOUNS SILL MEMBER THAT DOES THAT \$245 MILLION INDEBTED IS THAT THE INDEBTED FROM AUSTIN WATER UTILITY AND IT REMAINS -- IT'S THE SAME SCENARIOS BASED ON THE TRANSFER RATES REMAINING THE SAME.

OKAY.

MAYOR? I WANT TO THANK YOU AND THANK STAFF FOR STARTING THE BUDGET CONVERSATION EARLY THIS YEAR. OBVIOUSLY WE'RE GOING TO NEED THE EXTRA WORK TO TRY TO BALANCE THE BUDGET. ONE OF THE THINGS THAT, UM, LOOKS PRETTY OBVIOUS TO ME IS THAT WE ARE HEAVILY DEPENDENT UPON SALES TAX. WE'VE MADE SOME DECISIONS AS A COUNCIL AND I THINK MOVING FORWARD I EVEN HEAR THAT OR I SEE THAT WE MAY BE FWASED WITH FUTURE DECISIONS THAT RELATE TO, UM, CREATING MORE TIFFS TO FUND DIFFERENT PROJECTS AND INFRASTRUCTURE. BUT I THINK FOR ME IT'S REALLY IMPORTANT THAT WE REMAIN MINDFUL THAT IF WE CONTINUE TO GO DOWN THAT ROAD, WE'RE ONLY GOING TO BE HURTING OURSELVES ON THE PROPERTY TAX SIDE WHICH IS THE MORE SUSTAIN ABLE REVENUE SOURCE F. WE CONTINUE TO TIFF OURSELVES INTO THE FUTURE TO PAY FOR THINGS TODAY, UM, THE PROPERTY TAX IS NOT GOING BE THERE TO COME INTO THE GENERAL FUND. AND I JUST THINK THAT WE SEE SOME OF THE RESULTS OF THAT TODAY BECAUSE WE'RE SO DEPENDENT UPON SALES TAX AS OPPOSED TO PROPERTY TAX, WHICH SHOULD, IN MY FIND WOULD BE MUCH MORE SUSTAINABLE LONG TERM.

I THINK THAT'S ACCURATE. AND I THINK IT'S REALLY THROUGHOUT THIS PROCESS KIND OF THE OVER ARCHING POLICY DISCUSSION FOR THIS LEGISLATIVE BODY. BECAUSE WHAT WE'RE TALKING ABOUT THE IS ADEQUACY IF YOU WILL OF THE CURRENT REVENUE POLICY THAT HAS SUSTAINED THIS CITY FOR QUITE SOME TIME F. YOU TAKE INTO ACCOUNT WHAT YOU'VE HEARD FROM YOUR CHIEF FINANCIAL OFFICER AND OUR BUDGET DIRECTOR AND YOU INTEGRATE THAT WITH WHAT OUR ECONOMIST SAID TODAY, IT SPEAKS VERY MUCH TO THAT ISSUE. SO MY HOPE IS, IS THAT AT SOME POINT IN THE COURSE OF OUR DISCOURSE RELATIVE TO DEVELOPING THE BUDGET OR EVEN THERE AFTER WE CAN HAVE SOME SUBSTANTIAL CONVERSATION ABOUT THAT VERY IMPORTANT ISSUE.

CAN WE JUST GET A SOFT COPIES OF THESE PRESENTATION BOTH OF JOHN HOCKENYOS AND BOTH THE BUDGET?

WE CAN.

THIS WILL ALL WILL B ON THE WEB SITE FOR THE COMMUNITY AND CITIZENS TO HAVE ACCESS TO AS WELL.

GOOD. THANKS.

I JUST WANT TO SAY I THINK THIS HAS BEEN A GREAT EXERCISE, I WANT TO COMPLIMENT THE CITY MANAGER AND STAFF FOR THIS EXCELLENT PRESENTATION. I THINK IT GIVES US A GOOD HEADS UP. WE CAN START THINKING ABOUT THESE THINGS EARLY AND I THINK THAT'S GOING TO BE VERY USEFUL.

ALSO, I WANT TO THANK THE STAFF. I THINK THIS HAS BEEN VERY CALL VALABLE LOOKING AT THE DETAILS AND THE DIFFERENT SCENARIOS FOR US TO SEE. VERY LIMITED FLEXIBILITY THAT WE HAVE GIVEN STATE LAWS ON THE ROLL BACK RATE AND ALSO SALES TAX IN TERMS OF AND ALL THE COST DRIVERS WE'RE FACING A LOT OF THEM THAT ARE YONT BEYOND OUR CONTROL LIKE HEALTH SINCE. I THINK THIS HELPS TO PRESENT A VERY, UM, REAL STARK PICTURE AS TO WHAT WE'RE FACING. I APPRECIATE GETTING THIS INFORMATION THIS THOROUGH ROE INFORMATION EARLY AND UP FRONT FOR US.

REMEMBER OUR PLAN NOW IS TO MEET EVERY WEDNESDAY MORNING PRIOR TO A THURSDAY CITY COUNCIL MEETING. 9:00 AND WE'LL TRY TO KEEP THAT LIMITED TO A THREE-HOUR WORK SESSION.

THANKS FOR THE FLEXIBILITY AND STAFF FOR A GREAT PRESENTATION. NO MORE BUSINESS BEFORE THIS WORK SESSION. WE NOW STAND ADJOURNED, IT IS 11:39 A.M.

End of Council Session Closed Caption Log